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ABSTRACT

This report, the second annual Human Development Report (HDR) for Latvia, investigates the accuracy of Latvia's 1995 ranking of 48th out of 174 countries in terms of human development in the most recent United Nations Development Programme (UNDP) global Human Development Report. The report also suggests measures that could significantly improve Latvia's position in the years ahead. The chapters are: (1) "Introduction"; (2) "Human Development During the Transition--The Latvian Context"; (3) "Economic Policies and Changes in Living Standards"; (4) "Education Reform"; and (5) "Participation and Strengthening Civil Society." Common themes that recur throughout the text include: (1) the state is retreating and civil society must fill the gap; (2) distrust of the public sphere hinders human development; (3) freedom, responsibility, and opportunity are inextricably linked; and (4) human development can be promoted without increasing government expenditures. Nineteen statistical tables that correspond with indicators specified by the UNDP are appended. (Contains 127 references.) (EH)

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LATVIA

HUMAN DEVELOPMENT REPORT

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Latvia
Human Development Report 1996

Riga
1996

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Riga, Latvia, May 1996

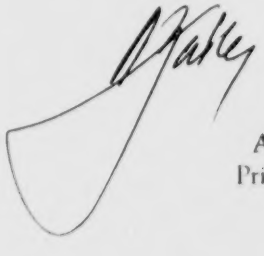
Foreword

A considerable period of time has elapsed since the restoration of our country's independence. Everyone will remember this period in terms such as "the Singing Revolution," "the January barricades," and "the Baltic Way." Undoubtedly, each of us who supported these events hoped that, with the restoration of independence, we would gain the maximum opportunity for national development, which would also be manifested in an increase in the general level of well-being. However, reality always turns out to be different than initially hoped. The early hopes of many have been disappointed, as their image of an independent Latvia was completely different.

It is important to understand that concepts such as "human development" and "the implementation of economic reforms" are intimately linked. Only by rapidly and consistently implementing economic reforms is it possible to accelerate the overall pace of development. We are glad to accept any helping hand in assisting us to understand this linkage. It is particularly important that this helping hand does not give us fish, but fishing rods, that it assist us in understanding and creating an open, civic, middle class society world view.

The *Latvia Human Development Report 1996* is just such a "helping hand," showing the link between necessary economic reform and the goals of human development. It is an independent and objective publication which helps to understand the true situation in Latvia and might be used as one possible alternative in the development of state policy, especially in the implementation of education and social welfare reform.

Words of gratitude must be said to the authors of this publication, who, despite their diverse views and ideas, managed to cope with the difficult task. Particular thanks go to United Nations Development Programme (UNDP) Resident Representative John Hendra, without whose personal participation it would be incomparably more difficult to prepare such a publication and implement other UNDP activities in Latvia.



Andris Šķēle
Prime Minister

Foreword

Now, almost five years after the restoration of independence, and on a clear path to full integration into Europe, Latvia is passing through a critical period of its ongoing transformation to a market-oriented democratic state based on the rule of law.

While the building of a market economy in such a short period of time is in itself a tremendous challenge, experience throughout Central and Eastern Europe and the Baltic States has highlighted that this is only one element of the "transition". As complex, if not even more challenging, is the transition to a **different kind of society** — that is to a fully democratic society based on the rule of law where people's rights are protected and their responsibilities are known and met; to an open society where people can freely participate in the economic, political and social transformation underway; to a civil society where the needs and aspirations of people can be addressed and where society itself shoulders responsibility for helping to address the serious social consequences of fundamental change; in short, transition to a society that promotes **human development**.

Like the first Latvia Human Development Report, published last year, this year's Report attempts to further the analysis of human development in Latvia and to propose policy alternatives in those areas of most relevance during this critical period in Latvia's transition. While several 1996 human development reports in other countries of the region are focusing in particular on national urban development and housing issues related to the Habitat II World Conference being held this June, after debating last year's Report various Latvian interlocutors felt that other issues related to human development were of a higher priority to Latvia at this time. In addition to a more thorough analysis of the concept of human development in the specific context of Latvia, these include the linkage between economic reform policies and changing living standards, the clear need for education reform and promoting participation and strengthening civil society.

As with last year's Report, the process of preparing this Report has been a **national** one. A key difference this year however has been the introduction of a "team approach" where each chapter was developed by a team of Latvians with various professional backgrounds (academics; government officials; private sector representatives; activists from non-governmental organizations; journalists) and led by a Team Leader who was primarily responsible for the team's chapter. After a draft of each chapter was completed, a seminar was organized where not only the full team but also other specialists came together to debate some of the conclusions reached. Based on discussions held during these seminars, as well as on other substantive comments received, the chapters were then finalized and edited.

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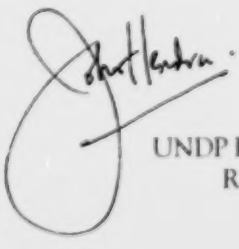
While the final Report is not an official policy document and does not reflect all the views of those involved in preparing it nor necessarily the views of UNDP or its Executive Board, it does try to present an independent and objective analysis of some of the most pressing human development challenges facing Latvia.

Similarly to last year, while a number of issues highlighted in the Report are the focus of various assistance and reform efforts, specific international assistance programmes are often not mentioned, as the focus is on developing national policy alternatives. Other analyses of the state of Latvia's transition have also recently been published (such as Fafo's "Latvia: The Impact of the Transformation", The NORBALT Living Conditions Project) and the Report has been developed to be complementary to such studies with the focus on the development of policy reform alternatives.

As this Report highlights a number of important issues confronting Latvia at the moment, it is hoped that it will promote both discussion as well as debate on developing new reform policies. While it is UNDP Latvia's intention to sponsor a number of forums to discuss the Report after giving people time to review it, we would like to encourage any group reading it — the media; academia; perhaps Saeima (parliament) or government circles — to discuss the Report any way they see fit. Although UNDP Latvia will try to ensure as broad a distribution as possible of both the Latvian and English language versions of the Report, those who have access to Internet can find this year's Report (as well as the 1995 Report) on UNDP Latvia's homepage on the World Wide Web (http://www.riga.lv/~undp). To help facilitate follow-up discussion, we have also established an electronic mailbox on the same homepage where people can articulate their views on the Report for others to read and perhaps even debate electronically.

On behalf of UNDP I would very much like to thank all those who contributed to the writing of this Report as well as those who made substantive comments on earlier versions. In particular, I would like to acknowledge the Team Leaders for the four substantive chapters, Pauls Raudseps, Guntis Rozenbergs, Jānis Bokāns, and Ilze Ostrovska for their personal and professional commitment to this exercise and the impressive analytical output they and their respective teams produced. In this connection, I would also like to thank the various team members who provided critical input from various different perspectives. In addition, I would like to thank the many Latvian officials from various parts of the government (Prime Minister's Office; Ministry of Welfare; Ministry of Foreign Affairs) who have shown their commitment to both the concept of human development and the preparation of annual independent Human Development Reports for Latvia.

Finally, a note of special thanks to our National Coordinator, Nils Muižnieks, whose experience and personal and professional commitment have been invaluable to the preparation of this Report.



John Hendra
UNDP Resident Representative
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Executive Summary

This is the second annual Human Development Report (HDR) for Latvia. It builds on the ***Latvia Human Development Report 1995*** and aims to further the development debate in Latvia by analyzing progress achieved, pointing to challenges still ahead and suggesting ways to improve human well-being. Latvia was ranked 48th out of 174 countries in terms of human development in the most recent UNDP global ***Human Development Report***.

This Report investigates the accuracy of that ranking and suggests measures that could significantly improve Latvia's position in the years ahead. This Report has four main chapters: "Human Development During the Transition — The Latvian Context," "Economic Policies and Changes in Living Standards," "Education Reform," and "Participation and Strengthening Civil Society." While covering a broad range of topics, the chapters are linked by a number of common themes that recur throughout the text and provide a common thread.

The first common theme is that the state is retreating and civil society must fill the gap. In Latvia, as in other countries in transition, human development must be promoted without the state acting as an all-encompassing regulator of social life, as it did during communist rule. As the role of the state is transformed, that of civil society becomes all the more important. This changing state-civil society balance colours economic policy options and prospects for education reform, making popular participation all the more important.

A second, related theme is that distrust of the public sphere hinders human development. A populace that was controlled, regulated and often punished by the communist state cannot quickly overcome distrust of politics and the public sphere more generally. However, bridging the gulf separating the "official" realm of politics, often considered threatening and hypocritical, and the "unofficial" realm of family and personal contacts, considered secure and "true," is essential for human development and can only be achieved through openness, continued reforms and participation.

A third theme is that freedom, responsibility, and opportunity are inextricably linked. Many people in Latvia and in other countries in transition became accustomed to the "support" of a regulatory state which divested them of much personal responsibility. Successful human development requires politicians, civil servants, business people, and the public at large to assume new responsibilities under new conditions of freedom.

A fourth recurring theme is that human development can be promoted without increasing government expenditures, as many necessary measures require no money, only political will and initiative. In times of austerity, there is a premium on increasing efficiency and employing non-monetary levers to spur development. The policy options outlined in each chapter and reiterated in the conclusion are a testament to the many possibilities in this realm.

An introductory chapter lays out these common themes for the first time, shows how this Report builds on last year's effort, and suggests ways of using the Report. Chapter Two, "Human Development During the Transition — The Latvian Context," outlines the development challenges common to all countries in transition and highlights the features particular to the Latvian case. While Latvia has fared comparatively well in managing the economic transformation, it has experienced a social trauma more serious than many countries in transition.

Average calorie consumption per capita has fallen substantially, inequality (as measured by the Gini coefficient) has increased considerably

and mortality from all causes has risen sharply, resulting in an increasingly elderly population with one of the shortest male life expectancies in Europe. While Latvia's situation in these realms closely resembles that in other countries in transition, particular challenges for human development in Latvia include halting the extremely negative natural rate of population increase, promoting development in the eastern region of Latgale, and overcoming differences in life expectancy between the countryside and the cities and between the major ethnic groups.

Chapter Two notes that economic development tops the government's investment priorities while relatively few investment resources will be targeted towards health and education, two sectors with a direct impact on Latvia's global human development performance. Though Latvia has not yet introduced the World Bank budget classification system, an analysis of Latvia's budget suggests that the division of expenditures roughly corresponds with that in a model human development budget — the primary problem lies in the small absolute size of the budget.

Chapter Two also analyzes in some detail the popular perception of a sharp separation of the public and private spheres and suspicion of the elite in Latvia, tracing its origins to the structure of Latvian society in the nineteenth century and the consequences of communist party rule. This divided model of society and the values that flow from it are serious barriers to human development, undermining trust in statistical data and political programmes, hindering society from openly discussing problems and arriving at solutions, and delaying efforts to build a state based on the rule of law.

Chapter Three, "Economic Policies and Changes in Living Standards," analyzes how economic and social welfare reform has affected people. Although Latvia has achieved some economic successes, including declining inflation and a stabilization of the unemployment rate, 1995 witnessed a two percent decline in GDP, a continued fall in industrial production and a serious banking crisis, punctuated by the collapse of *Banka Baltija*, the largest commercial bank in the Baltic states. Though the Bank of Latvia has improved regulatory oversight of commercial banks, public trust in the banking system has yet to be renewed.

The banking crisis negatively affected government revenues, resulted in a sizeable budget deficit and difficulties in fully funding needed social programmes. These difficulties have been compounded by poor tax administration and a substantial shadow economy, which accounts for at least 14 percent of GDP. At the same time, Latvia's external debt remains manageable and the national currency, the lat, remains strong and stable. Privatization — a core prerequisite for sustainable growth, has proceeded very slowly. Due to high interest rates and the lack of domestic savings, the success of privatization is closely linked to foreign investment, the level of which has been disappointing.

While wages slightly outpaced inflation in 1995, pensions did not, leading to a decline in living standards for Latvia's sizeable population of pensioners. The large size of this proportion of the population and the lack of accumulated savings from before the restoration of independence are objective hurdles to a rapid improvement in human development. However, far-reaching social welfare and pension reform is underway, and should lay the groundwork for increased economic security in the future.

Chapter Four, "Education Reform," links education to individual human development and broader processes of integration in society. Education is essential in providing individuals with the skills to participate effectively and responsibly in social and political life and to earn a decent living in a rapidly changing economic environment. At the same time, the education system can play an important role in instilling common values and a common language in an ethnically and linguistically diverse population such as Latvia's.

Existing legislation has not proven to be an adequate foundation for education reform, but a new draft education law has been submitted to parliament. In education, as in other realms, the reform process has been complicated by financial constraints. Though an estimated 6.3 percent of GDP was spent on education in 1995, the structure of funding in this sector remains far from satisfactory and a very small share of financing has gone towards investment. Budgetary constraints are reflected in teachers' salaries, which

barely exceed the subsistence minimum. While teachers are forced to work overtime to make ends meet, Latvia's student-teacher ratios are among the lowest in Europe, which suggests that changes might be made to increase efficiency.

A core challenge for reformers lies in coping with the legacy of the division of Latvia's education system into two major sub-systems: Latvian-language schools and Russian-language schools. Under Soviet rule, schools with Russian as the basic language of instruction devoted insufficient attention to instilling Latvian language skills, and a concerted Latvian language training effort is now required to overcome the legacy of Russification in both the school system and among adults. The government has adopted a far-reaching National Programme for Latvian Language Training coordinated by UNDP. However, successful implementation will be dependent not only on the continued commitment of the government, but on the ability of reformers to tap the participation and input of teachers and directors in minority schools.

Introducing more Latvian instruction to Russian-language schools and other innovations, such as the introduction of environmental, health, and civics education, have highlighted the urgency of increasing coordination of the curriculum among different courses and levels of education. At the same time, these curriculum changes, the aging of the teacher community, and trends towards lower educational attainment among younger teachers suggest that the education and continuing education needs of teachers merit priority attention. Teachers have formed various professional associations and organizations, whose potential for furthering reform has not been fully tapped.

Chapter Five, "Participation and Strengthening Civil Society," notes that participation creates vertical links between the public and government, thereby deepening democracy and helping to overcome distrust of the public sphere, and horizontal links of solidarity within society. A non-monetary resource for change and an essential introduction to democracy, participation in social and political life prepares the public for life under the new conditions of freedom, responsibility and opportunity.

After the "wave of participation" during the awakening in the late 1980s, almost all forms of participation have diminished in the last several years. Electoral participation has steadily decreased since 1990 because a sizeable proportion of the population is without citizenship. However, alienation and distrust of the elite resulted in a significant protest vote in the 1995 parliamentary elections and the social cost of the transition has spurred a rising level of protest.

Several core components of civil society — the media, political parties, and NGOs — have yet to assume their rightful place in consolidating democracy. The media, a critical vehicle for debate on development tactics and strategies, has encountered difficulties in effectively presenting complex transition issues. The 1995 bank crisis negatively affected the advertising market and thus the revenues of media organizations, and the small size of the middle class means demand for "quality journalism" remains limited. The plethora of political parties, for their part, have small membership bases and enjoy little public trust. NGOs, which succeeded in eliciting high participation at the beginning of the transition, have lost a significant portion of their support base, suggesting the necessity of reviewing the legal and fiscal climate for voluntary organizations.

The primary preconditions for the growth of informed, constructive participation exist in Latvia, but a number of obstacles must be overcome, including a lack of resources (leisure time, democratic skills), alienation and distrust of politics in general, and the sizeable share of the population directly dependent on the state. A whole range of inexpensive steps can be taken to promote participation and strengthen civil society, so significant change in this realm is not only necessary, but possible and perhaps more likely than in other realms.

This Report not only analyzes important human development issues, it proposes a number of policy measures. In the end, it is action, not words, that will determine whether and to what extent the well-being of people in Latvia improves. It is to be hoped that this Report will generate discussion, criticism, and alternative proposals for promoting human development in line with Latvia's historical traditions and current possibilities.

Chapter **1**

Introduction

Latvia, the Transition and Human Development

Since the collapse of the Soviet Union and the restoration of independence in 1991, Latvia has made considerable progress in meeting the threefold challenge of consolidating statehood, cultivating democracy, and transforming to a market economy. The ***Latvia Human Development Report 1995***, Latvia's first Report, provided a broad overview of the dilemmas of furthering social integration and alleviating social stress since independence. This Report investigates in greater depth how the concept of human development can be operationalized in the Latvian context and proposes recommendations for improving economic policy, promoting education reform and enhancing popular participation in social, economic, and political life. The goals of both the 1995 and 1996 Reports are similar: to analyze the human dimension of the transition, to promote public awareness and debate about human development and to propose ways to put and keep people at the centre of the development process.

Both the ***Latvia Human Development Report 1995*** and this Report emphasize challenges and inequalities that still need to be addressed. This should not obscure Latvia's considerable accomplishments since independence. In the political realm, Latvia has gone far towards overcoming the legacy of totalitarianism. Since independence, there have been two general elections, in June 1993 and again in September 1995. Political stability, the emergence and effective functioning of political parties, non-governmental organizations (NGOs) and a vibrant independent media suggest that democracy has found fertile soil in Latvia.

In the economic realm, as well, Latvia has achieved numerous successes. After several years of a severe economic downturn, macroeconomic stabilization has been attained. Latvia's currency, the lat, has already acquired a reputation for strength and stability throughout the region. After rapid price increases in the early 1990s, Latvia succeeded in reining in inflation to the lowest level in the entire region. While the social cost of the transformation has been high, the government has undertaken a comprehensive reform of the social welfare system and society has begun to organize to help itself and those in need of assistance.

Both last year's and this Report highlight the human costs of the transition, progress made since independence, and challenges still ahead. To understand why this Report highlights certain themes and how the analysis builds on previous work, it is necessary to briefly review the ***Latvia Human Development Report 1995.***

Latvia Human Development Report 1995

The ***Latvia Human Development Report 1995*** provided an inventory of the situation regarding social development and a basis for monitoring Latvia's subsequent progress. The Report focused on two sets of issues that pose particular challenges for human development in Latvia: social integration and social stress. In the realm of social integration, the Report devoted separate chapters to the development of a multi-ethnic society, the position of marginal/vulnerable groups, the changing status of women, and the emergence of civil society. Under the rubric of social stress, the Report had chapters on the human costs of rising poverty, growing unemployment, deteriorating public health, and burgeoning crime.

Basic Facts About Latvia

Population (1995)	
Estimated population (millions)	2.5
Population growth (%)	-1.4
Population density (persons/sq. km.)	38.7
Population distribution (%)	
Rural	31
Urban	69
Gender distribution (%)	
Males	46
Females	54
Age distribution (%)	
Under 15	20.4
Active age	56.7
(Males: 15-59, females: 15-54)	
Over active age	22.9
Ethnic distribution (%)	
Latvians	55.1
Russians	32.6
Belarussians	4.0
Ukrainians	2.9
Poles	2.2
Lithuanians	1.3
Others	1.9
Human Development index rank	
(HDR 1995)	48/174
Adult literacy rate (1995) %	99

Health (1994)	
Average life expectancy (years)	66.4
Men	60.7
Women	72.9
Infant mortality (per thsd. births)	15.5
Number of doctors (per 10,000 pop.)	34.3
Economy (1994)	
Total GDP (thsds. of Lats)	1914
Real GDP per capita (Lats)	579
Real GDP per capita (PPP$)	3214
Real growth in GDP %	0.6
Unemployment % of work force	6.5
Distribution of employment by sector % (1994)	
Agriculture	19
Industry	26
Services	55
Government expenditures as % of GDP (1994)	
Total, of which	23
Defence	0.8
Education	4.3
Health	4.1
Social protection	12
Land area	64,600 sq. km.

Given Latvia's ethnic and linguistic diversity and earlier patterns of segregation, it is particularly important that all of Latvia's inhabitants be ensured equal opportunities. Though high rates of ethnic intermarriage and the renewal of the minority cultural infrastructure attest to considerable tolerance, important policy tasks laid out in the chapter on "The Development of a Multi-Ethnic Society" included resolving issues related to the large number of non-citizens and overcoming the consequences of past Russification policy by promoting the Latvian language.

While the integration of various ethnic groups is important, so is that of marginal/vulnerable social groups — orphans and children without parental supervision and support, people with disabilities, the elderly, and former prisoners. The 1995 Report outlined the particular needs of these groups and suggested that broader public involvement and awareness of their problems was necessary.

The global attention devoted to the condition of women in 1995 at the Fourth World Conference on Women in Beijing was reflected in the Report as well, which had a separate chapter devoted to "Latvian Women in Transition." Women have borne the brunt of the transition in Latvia: representation in government has decreased, the move towards a market economy has been accompanied by discrimination in the job market and social strain has contributed to the deterioration of women's health. At the same time, women's organizations are playing an increasingly important role in articulating and defending women's interests, and the Fourth World Conference on Women served as a catalyst for government cooperation with NGOs.

The integration of various ethnic groups, the most vulnerable segments of society and women can only take place in a broader context in which civil society has emerged and displaced the formerly repressive, regulatory state from many realms. The role of economic civil society — private property and the market — expanded rapidly in Latvia immediately after the restoration of independence. Moreover, Latvia has witnessed a vast growth of media outlets and NGOs. However, the main television and radio broadcasters have yet to be completely transformed from state broadcasters to public broadcasters, most regional newspapers are owned by local governments, and political parties have only small membership bases. The government has taken steps to create a professional civil service and promote decentralization, while NGOs are active in civics and human rights education, which should help overcome the "learned helplessness" bequeathed by the Soviet system.

The dilemmas of building civil society and furthering social integration more broadly are complicated by various processes related to the social stress of transition. The chapter on "Declining Incomes and Rising Poverty" described how the transformation to a market economy in Latvia was attended by a serious economic crisis: gross domestic product per capita decreased by more than a half from 1990 to 1994 and price increases considerably outpaced increases in incomes. At the same time, inequality increased and the distance between rich and poor grew.

The disruption of old economic links and restructuring in the industrial and agricultural sectors engendered growing unemployment. By early 1995, 6.5 percent of the economically active population were registered in unemployment lines with "hidden unemployment" exacerbating the situation. The eastern region of Latgale has unemployment rates three times the national average, women in the capital have been particularly hard hit, but all ethnic groups have been equally effected. The government has sought to address unemployment through education and retraining programmes and involving the unemployed in salaried temporary social work.

Economic and social strains are reflected in deteriorating public health: growing infant mortality, falling life expectancy, more frequent death from circulatory diseases, increasing rates of chronic alcoholism, and the reappearance of diphtheria and tuberculosis. A reorganization of the health care system is underway, but much depends on the ability of the population to overcome unhealthy life styles, including excessive alcohol consumption, widespread smoking, obesity and arterial hypertension. Last year's Report concluded that a broad health education effort could significantly enhance human development in Latvia.

While public health has deteriorated under the pressure of social stress, so has public security. Official data indicate a decline in recorded crimes, but the media and sociological surveys suggest that crime, especially organized crime is on the upswing. Organized crime is often transnational in nature, suggesting the imperative of strengthening international cooperation to combat it. According to official statistics, violent crime has increased, and this has been facilitated by the growing availability of firearms. Reforms of the court system and law enforcement agencies must continue to enhance public trust and contribute to increased public involvement in strengthening human security.

The ***Latvia Human Development Report 1995*** generated lively discussion and debate in the mass media. Thanks to the Internet, the English version continues to evoke interest from around the world. Representatives from several government ministries and a host of NGOs have submitted detailed comments and criticism to UNDP. While some readers found the Report overly critical, others have distributed the document as an accurate portrait of circumstances in Latvia. Several institutions of higher education have used the Report as a text on social policy and Latvia's development challenges. Demand for the Latvian edition has been unexpectedly high, all copies of the first print run have been distributed, and a second printing of the 1995 Report is in the works. It is to be hoped that this year's Report will generate similar public interest.

Building on Last Year's Effort: The Latvia Human Development Report 1996

This Report builds on last year's effort, but analyzes fewer issues in greater depth. While the policy recommendations in last year's Report were often implicit in the analysis, a special effort was made to make them explicit in this Report. Several common threads run throughout this year's Report, forming a more tightly woven fabric. The process of formulating this Report drew on last year's experience, but with certain modifications.

In the discussions following the publication of the ***Latvia Human Development Report 1995***, it became evident that a more detailed analysis of the concept of human development was in order, with due attention to Latvia's specific historical experience and cultural milieu. Thus, the chapter on "Human Development During the Transition — The Latvian Context" investigates not only the challenges common to all countries in transition (e.g. deteriorating public health, growing socioeconomic inequality), but also the particular dilemmas facing Latvia, such as the demographic crisis, promoting development in the easternmost region of Latgale, and overcoming a value system that, in some respects, serves as a hindrance to human development.

While last year's Report examined poverty, unemployment and the socio-economic conditions of specific strata in society (vulnerable groups, women), this Report takes a more synthetic approach, analyzing economic policy and changes in living standards more broadly. The recent pace of economic development has been below expectations due to a bank crisis in late 1995, a slow and bureaucratic privatization process, and an inhospitable environment for foreign investment. Weak tax administration and a sizeable budget deficit limit the ability of the government to fully fund needed social programmes and invest in human development. While the growth in state sector wages slightly outpaced inflation in 1995, the growth in the average size of pensions did not keep pace with inflation, thereby leading to a decline in pensioners' living standards. While a recently adopted set of social welfare legislation has laid the groundwork for far-reaching reforms, a broader national poverty reduction strategy is required for those who fall outside the social safety net and should not be forgotten as measures are enacted to foster sustainable growth.

When debating last year's effort, many Latvians agreed that education — a core element in any human development strategy — deserved more detailed treatment and a separate chapter in this year's Report. Since Latvia is not well-endowed with natural resources, human resources in general and an educated population in particular are all the more important in ensuring Latvia's

development and international competitiveness. Moreover, the education system plays an important role in instilling common values (and a common language) in an ethnically and linguistically diverse population.

Among the more disturbing trends in the education system are low kindergarten attendance and a decline in the proportion of children attending basic school. Teachers, who are in dire need of support and retraining, receive salaries that barely exceed the subsistence minimum. At the same time, the share of children acquiring a general secondary education has grown and record numbers of students have enrolled in Latvia's institutions of higher education. Moreover, the government has begun to implement a national Latvian language training programme and innovative courses on civics and the market economy have been introduced. In order to accelerate the reform process, the assistance of parents and NGOs must be enlisted, existing teacher training programmes require increased coordination, the enthusiasm and initiative of teachers must be tapped through financial and other incentives and efficiency must be increased.

The lively debate engendered by the chapter on civil society in the 1995 Report led to the decision to investigate more thoroughly changing patterns of participation in Latvia's social and political life. Chapter Five analyzes the decline in participation after the explosion of activity in 1988-1991. While participation in elections, electoral campaigns and NGOs has fallen, there has been a recent increase in the level of protest and contacts with government representatives. Among the primary barriers to enhanced participation are the socioeconomic and political legacy of totalitarianism (a small middle class, political alienation, lack of democratic skills), the fragmentation and weakness of democratic institutions and the economic hardships accompanying the transition. A number of measures could be taken to bolster public confidence in government and promote constructive, informed participation, including the adoption and implementation of strict regulations governing conflict of interest, campaign finance reform, and a concerted effort by the government, NGOs and the media to instill the knowledge, values and skills necessary for a democracy to flourish.

Though the subject matter covered in this Report is wide-ranging, several core themes run throughout the Report and reappear in various forms:

Theme #1: The State Is Retreating, Civil Society Must Fill the Gap

Countries in transition from communist rule must strive to promote human development through different means than most developing countries, where human development strategies often call for enhancing the regulatory role of the state. In Latvia, as in other countries in transition, human development must be promoted as the state retreats (or is pushed back) from its former position as all-encompassing regulator of social life. While the state recedes, some of its functions are assumed by an emerging civil society, uncertain and inexperienced, but playing an increasingly important role in social and political life. While shaping the possibilities of promoting human development more broadly, this changing state-civil society balance also colours economic policy options and prospects for education reform, rendering participation all the more important.

Theme #2: Distrust of the Public Sphere Hinders Human Development

Communist dictatorships attempted to destroy the distinction between the public and private spheres by controlling, regulating, and, if necessary, punishing society. Corruption and repression in the public sphere led the populace to seek refuge in the sphere of personal contacts and family circles and to distrust politics in general. The legacy of a gulf separating the "official" realm of politics, considered threatening and hypocritical, and the "unofficial" realm of family and personal contacts, considered secure and "true," continues to hamper human development. In the economic realm, it manifests itself as the division between the official and the shadow economy, "official" tax law and "unofficial" widespread tax evasion. In the political realm, corruption and bribery contribute to a negative socialization process that undercuts participation, while distrust

of politics and politicians hinders the development of a party system and leads to protest. Government reform, a sustained civic education effort, and enhanced participation will be needed to revitalize the public sphere.

Theme #3: Freedom, Responsibility, and Opportunity are Inextricably Linked

Many people in Latvia and in other countries in transition became accustomed to the "support" of a regulatory socialist state which divested them of much personal responsibility. As noted in ***Latvia Human Development Report 1995***, one of the legacies of totalitarian rule is "learned helplessness." Overcoming "learned helplessness" requires accepting that freedom, responsibility and opportunity are inextricably linked. To a certain extent, the success of economic and social reforms is dependent on the population internalizing this linkage and adapting to it. The opportunity to enjoy government-funded social services and assistance is dependent on the responsibility exercised by the government in collecting taxes and the honesty of individual tax-payers. In the process of education reform, greater school autonomy means greater opportunities for experimenting and tailoring curricula to local needs, but such autonomy also requires a higher level of preparation among teachers and greater responsibility on the part of school administrators. The freedom to participate in political, economic, and social life heightens the responsibility of being informed and constructive in exercising one's rights.

Theme #4: Human Development Can Be Promoted Without Increasing Government Expenditures

While some policies promoting human development require increased government expenditures, many other measures require no money, only political will and initiative. In Latvia, as in other countries in transition, economic hardship, the shadow economy and inefficient tax administration have led to a shrinking tax base and widespread tax evasion, which result in austerity budgets with few reserves that can be devoted to human development. In such conditions, there is a premium on increasing efficiency and employing non-monetary levers to spur development. For instance, changing the visa regime to make foreign business representatives more welcome might be a cost-effective way of promoting direct foreign investment — an important component in improving living standards. Basic education might gain in the long-term if steps are taken to promote efficiency now by increasing Latvia's low student-teacher ratios and seeking to eliminate overspecialization. Reviewing the legal and fiscal climate for NGOs and simplifying the registration process for social organizations could spur participation and strengthen civil society.

The common themes running through the Report emerged and crystallized in discussions, seminars, debates — throughout the process of preparing the Report. The preparation process, like the content, was also shaped by last year's effort. UNDP initiated and financed the publication of the 1995 Report and this Report, both of which were prepared by independent teams of Latvian researchers. Whereas individual chapters in the 1995 Report were prepared by prominent analysts and then critiqued by well-known commentators, the chapters in this Report were prepared by research teams of four to six members. Drafts were discussed in larger seminars with the participation of additional experts, government officials and representatives of the media and NGOs. While the content and formulation of the 1995 and 1996 Reports differ, both chart a path for sustainable human development that is consonant with Latvia's historical traditions and current possibilities.

Chapter 2

Human Development During the Transition — The Latvian Context

Introduction

Historically, the idea of development has always been associated with the so-called "Third World" or developing countries, which were contrasted to the "developed" or "Western" world. Over the last few years, this division also assumed a geographical dimension of "North" versus "South." In broad terms, the differences between these two groups of countries seemed sufficiently clear — one lived in relative plenty, the other in relative poverty. Over the past fifty years, much money and effort has been invested in raising standards of living in developing countries to eradicate global inequalities.

Initially, development was considered a purely economic matter which could be measured by a country's wealth, therefore, by measuring a country's total gross national product (GNP) and annual growth rates (of either GNP or gross domestic product — GDP). However, over time, it became clear that these aggregate figures often concealed gross inequalities within a society and that the quality of life cannot always be captured by a monetary figure. Development analysts began to seek for other ways to assess a society's level of well-being.

In an effort to address this problem, in 1990 the United Nations Development Programme (UNDP) released the first global ***Human Development Report***. In this report, the measurement of human well-being rests not only on monetary figures, but also on other indicators which reflect the quality of life, such as life expectancy and educational attainment. Taken together — life expectancy, educational attainment and real GDP per capita measured as purchasing power parity (PPP) — these three measurements form the Human Development Index or HDI (see Boxes 2.1 and 2.2). Although this index should not be taken as an absolute measure, it does represent an important tool to emphasize that governments promoting development must consider not only economic growth, but all the elements constituting human well-being. Since the introduction of the HDI, the concept of human development has gained increasing significance in indicating how successfully a society is fulfilling its primary task: improving the lives of all its members.

Ironically, it was also around 1990 that global changes began which led to the need to expand if not completely rethink the notion of "developing" and "developed" countries. With the collapse of communism in Eastern Europe and the Soviet Union, a number of countries emerged or re-emerged which did not readily fit into the "developing" or "developed" categories. These are the so-called countries in transition, which are attempting to make the transformation from communist dictatorships to democratic free market societies.

The challenges faced by these countries differ significantly from those of the traditional developing countries. Indeed, throughout the post-war era, the countries of Eastern Europe and the former Soviet Union resembled those of the North more than the South in their urban industrial character and demographic behaviour of their populations. Now, in transforming the inefficient economic systems in these countries, the core issues in the social sphere are not how to raise the health and education levels of the population, but how to preserve and build on earlier gains. In many countries, enhancing the role of the government is seen as one of the means to address problems of public health and education.

Box 2.1

Calculating the Human Development Index (HDI)

The HDI is based on three indicators: the life expectancy index (M), the education index (I) and the per capita income index (N). Since the 1994 survey, these indices for any indicator x are calculated according to the following formula:

$$\text{Index} = \frac{\text{Actual indicator } x - \text{minimum value of indicator } x}{\text{maximum value of indicator } x - \text{minimum value of indicator } x}$$

For example, in 1994 the world-wide minimum average life expectancy was 25 years, and the maximum was 85 years. That year the average life expectancy in Latvia was 66.4 years. Therefore, the Latvian life expectancy index for 1994 is:

$$\frac{66.4 - 25}{85 - 25} = 0.69$$

For the other two indices, the method of calculation is somewhat more complicated. The education index consists of 2 indicators: adult literacy (L) and a ratio which reflects the percentage of each age group that attends the relevant (primary, secondary, higher) institutions of education (A). These indicators are converted into a fraction, as was done with the life expectancy figures. Considering literacy the more significant indicator, it is weighted more heavily in calculating the education index:

$$I = (2L + 1A)/3$$

The basis for the per capita income index is GNP calculated in purchasing power parities. The presumption in making this calculation is that supplementary income over the world average income per capita (in 1992, $5,120 - calculated in purchasing power parities) has relatively little impact on a society's real level of well-being — that is the origin of "adjusted GNP per capita". To see the results of such weighting, one can compare the relevant columns in the HDI table in Box 2.2. Then the income index is calculated in the same manner as the others, using the maximum ($5,448) and minimum ($100) weighted income per person.

The general HDI index is calculated by the sum of the three basic indices I, M, N, divided by 3.

Paradoxically, countries in transition must do the opposite — diminish the role of the state in the regulation of peoples' lives. The tension generated by the seemingly insoluble contradiction between these priorities shapes any discussion about human development in transition countries.

The difficulties of the transition do not mean that the level of human development should be measured any differently. However, in the face of these historically unprecedented changes, new strategies for promoting human development are required, strategies somewhat different from those traditionally employed in the developing countries of Africa and Southern Asia or, what's more, the middle income countries of Latin America and South-East Asia. One must begin with the question: what is the nature of the "transition period" and what are its concrete manifestations in Latvia?

Most countries formerly ruled by communist dictatorships are transforming, and their declared goal is to become democratic free market societ-

ies. The transition is the period of time spent by countries on the path of transforming their societies from the previous system to new market-oriented democratic societies based on the rule of law. In all post-socialist countries, this transition manifests itself in similar ways. The most evident result is a longer or shorter period of economic crisis: a rapid decline in GNP and particularly in industrial production, high and even hyper-inflation. Privatization commences and the role of the private sector increases, but, simultaneously, the size of the shadow economy expands uncontrollably. Social inequality grows and those who are dependent on the state budget — pensioners, the disabled, the unemployed — are especially affected by falling living standards. The general level of public health declines, and often with it, the birth rate and life expectancy. The central mechanism of democracy — an elected Parliament — is rapidly created, but the everyday infrastructure of a liberal democratic system — an effective and fair judiciary, popular participation in political parties and non-governmental organizations — develops considerably more slowly.

These are the general characteristics of the transition which, as can be seen in the ***Latvia Human Development Report 1995*** and this Report, are also applicable to Latvia. However, in analyzing these common elements, it is always important to bear in mind that each country develops according to its own particular historical situation. Furthermore, when talking about transitions, it is equally important to understand that there isn't one absolute and unchangeable model based on democratic institutions and a market economy. In every country in transition, these principles, like human development more broadly, will be brought to life differently depending on each country's specific historical experience and current possibilities.

In evaluating human development in Latvia during the transition, it is important not only to look at those indicators that locate Latvia at a certain point along the path from the Soviet Union to the European Union. It is essential to investigate those human development problems and challenges specific to Latvia, and to pay attention to those aspects of the historical legacy that create obstacles to overcoming the difficulties of the transition.

Table 2.1

Life Expectancy at Birth By Sex in the Baltic Countries and Europe, 1955-1995 (Years)

	1955-1960		1980-1985		1990-1995	
	Male	Female	Male	Female	Male	Female
Baltic Countries,* Including	64.9	71.8	64.9	74.8	64.1	75.4
Latvia	65.2	72.4	64.4	74.2	63.3	74.9
Europe Including	65.6	70.4	70.0	76.7	68.9	77.0
Eastern Europe	64.3	68.9	67.3	74.3	63.8	74.1
Northern Europe	68.1	73.3	71.3	77.3	72.7	78.7
Southern Europe	64.1	68.3	70.8	76.9	73.0	79.3
Western Europe	67.1	72.5	70.9	78.2	73.0	79.7

* Calculated as the average value of male and female life expectancy in the Baltic countries in 1958-1959, weighted according to population size.

Box 2.2

Latvia's HDI: UNDP and Corrected Calculations

The HDI has generated wide discussion and one should be mindful of overemphasizing its importance. However, if it is calculated using the latest, most precise statistics, it provides insight into the development of a particular country in comparison to others.

From the calculations undertaken for this report, it is clear that the global Human Development Reports have significantly over-estimated the level of development in Latvia. Ignoring certain small and difficult to explain variations in other indicators (for example, an unexplainable fall in the literacy rate to 96 percent in the 1993 report), the discrepancy is primarily due to assessing the GNP at twice its actual level. This can be explained by the fact that previous reports used USSR calculations, which, as is well-known, were greatly inflated. Using OECD 1993 research figures on real purchasing power in Latvia, it is possible to arrive at a more precise rendering of the situation.

For comparison, the authors of the 1995 Lithuanian Human Development Report calculated their country's HDI for 1994 using the data of their own statistics committee and found that they too came up with a significantly lower figure than that in the global Human Development Report: 0.724 instead of 0.868.

Latvia's HDI: UNDP Calculations, 1992-1995

Global Human Dev. Report	HDI Value	HDI Rank	Adult Literacy (%)	Mean Years of Schooling	Educational Attainment	Life Expectancy	GNP Per Capita (US$)	Adjusted GNP Per Capita (US$)
1992*	0.873	33	99	7.6	2.62	70.6	6,270	4,905
1993	0.868	35	96	9	2.66	69.6	6,457	4,910
1994**	0.865	30	99	9	2.58	71	7,540	5,218
1995	0.857	48	99	68***	0.89***	69.1	6,060	5,181

The 1992 Report used 1990 data for life expectancy and education and 1989 data for GNP.
The 1993 Report used 1990 statistics for life expectancy, education and GNP.
The 1994 Report used 1992 data for life expectancy and education and 1991 data for GNP.
The 1995 Report used 1992 data for life expectancy, education and GNP.
*USSR data. Latvia does not appear in this Report as a separate country.
**The 1994 Report used a different HDI calculation method, which was also used in the 1995 Report.
***The 1995 Report changed the method of calculating educational attainment and mean years of schooling with a calculation reflecting the percentage of the relevant age group attending (primary, secondary, higher) education institutions.

Corrected HDI Figures for Latvia

	HDI Value	Global Ranking	Adult Literacy (%)	School Attendance Ratio*	Educational Attainment	Life Expectancy	GNP Per Capita** $PPP	Adjusted GNP Per Capita
1992	0.750034	55	99	69.5	0.892	68.7	3468	3468
1993	0.716457	73	99	69.5	0.892	67.2	3063	3063
1994	0.721425	73	99	69.5	0.892	66.4	3214	3214

*The global Human Development Report 1995 changed the method of calculating educational attainment and mean years of schooling with a calculation reflecting the percentage of the relevant age group attending (primary, secondary, higher) education institutions. 1994 data were used for all three years.
**OECD calculations.

Box 2.3

Latvia and the Global Conferences

Since the restoration of Latvia's independence in 1991, Latvia has participated in the three UN world conferences - the International Conference on Population and Development (ICPD) in Cairo in 1994, the World Summit on Social Development (WSSD) in Copenhagen in March 1995 and the Fourth World Conference on Women (FWCW) in Beijing in September 1995. The range of issues covered by these conferences — social integration of vulnerable groups, poverty eradication, promotion of gender equality, migration, primary health care and issues related to birth and mortality — are critically important for Latvia during this period of transition.

Latvia's participation in these three conferences provided an opportunity to address these issues at the national level as well. In the case of the Copenhagen and Beijing gatherings, national reports were prepared and the main problems were publicly debated before the conferences.

More important than the conferences are the follow-up activities and translating the aims of the global agreements signed at the conferences into actions at the country level. Among the major agreements were the development of comprehensive family planning and reproductive health strategies, the formulation of national poverty eradication strategies and the promotion of gender equality in society. Actions at the country level have taken the form of national conferences, such as the Nation's Vitality and State Policy conference after Cairo. Moreover, there have been training, public education and other activities aimed at increasing the impact of these agreements on people.

Latvia and the "Usual" Transition Problems

Just as the progress of developing countries used to be measured in terms of GNP, so now the progress of countries in transition is commonly measured only in economic terms. The social problems of the transition, even if they are serious, are generally viewed as inescapable and therefore, less important, at least for the time being.

Undeniably, social change as fundamental as that currently underway in Eastern Europe and the former Soviet Union will have human costs. However, countries in transition have not only had varying degrees of success in managing the economic transformation, but also in limiting the social consequences of this transformation. Until the banking crisis of 1995, Latvia fared relatively well in the first task. However, in many ways, Latvia has experienced a social trauma more serious than that in many other countries.

To start with, one can cite a fundamental example: food. In the period from 1989 to 1994, average daily per capita caloric intake decreased by 12 percent from 2618 to 2293 calories. The main reason for the decrease was the decline in real incomes. As a result, the share of household budget expenditures going towards purchases of food rose from 32 to 52 percent over that period. The only countries in transition with higher figures for that period were Albania, Romania, Lithuania, Belarus and Ukraine. Compared to the first half of 1994, caloric intake by families, including poor families, has increased by 3 percent.

Social Stratification

During the transition period, a radical change takes place in the social and economic stratification in society. In contemporary Latvia, household budget surveys are virtually the only source of statistical information on the differentiation of households according to income and expenditures, and the first reoriented such sur-

vey is only now being completed. In 1994, the Norwegian Institute of Applied Social Sciences (Fafo) and the Central Statistical Bureau (CSB) of Latvia jointly conducted a survey in Latvia called the NORBALT Living Conditions Project. This and other surveys only partially reflect so-called hyper-stratification, because the new rich are generally assumed to be inadequately represented in survey samples.

Calculations of Latvia's Gini coefficient suggest that a rapid growth in inequality has taken place. The Gini coefficient reflects how equitably income is distributed in a country: the closer to zero, the more equitable; the closer to one, the less equitable. At the end of the 1980s, the Gini coefficient in socialist countries was between 0.2 and 0.3. Based on household budget survey data, the figure for Latvia was 0.40 in 1993 and 0.42 in 1994. Such inequality is less severe than that in Brazil (0.54) and Venezuela (0.51), approximately the same as in Chile and Costa Rica (0.41), but greater than in any of the G-7 countries, where the figure ranges between 0.28 and 0.38. Though sharing similar conditions at the outset of the transition several years ago, Latvia has "outpaced" Estonia in terms of inequality. In 1994, the Gini coefficient for Estonia was 0.38, a figure significantly lower than that for Latvia.

The NORBALT survey revealed that only 23 percent of all households have more providers (or producers, as defined by the survey) than non-producers (consumers). Almost 40 percent of households have no producers working in officially registered employment. Thus, these households, at least officially, are completely dependent on pensions, assistance and social welfare payments. More than half of these dependent households are composed solely of pensioners. This alarming finding might be mitigated by the fact that in the other dependent households, one or more members might derive some income from the shadow economy.

Table 2.2

Demographic Indicators for Latvia and Other Countries in Transition, 1994

Country	Children Born Per Mother	Child Mortality in the First year of Life, per 1000 Inhabitants	Life Expectancy at Birth (Years) Male/Female	Natural rate of Increase	Inhabitants Older Than 60 years (%)
Estonia	1.37	14.5	61.0/74.0	-5.3	18.4
LATVIA	1.39	15.5	60.7/72.9	-6.9	18.8
Lithuania	1.54	13.9	63.0/75.0	-0.9	16.9
Bulgaria	1.37	16.3	67.2/74.8	-3.8	20.9
Czech Rep.	-	7.9	68.9/76.6	-1.0	18.0
Poland	1.80	15.1	67.5/76.1	2.5	15.6
Romania	1.41	23.9	66.1/73.2	-0.8	17.2
Slovakia	1.66	11.2	68.3/76.5	2.8	15.1
Slovenia	1.32	6.5	69.4/77.3	0.1	17.3
Hungary	1.65	11.5	64.8/74.2	-3.1	19.3
Belarus	1.51	13.2	63.5/74.3	-1.9	17.5
Russia	1.42	18.7	58.2/71.4	-6.2	16.6
Moldova	-	22.6	64.3/71.1	2.7	13.1
Ukraine	1.50	14.3	62.8/73.2	-4.7	18.5

Table 2.3

Life Expectancy by Sex and Educational Level in Latvia, 1989 (Years)

Age in Years	Males			Females		
	Higher and Incomplete Higher Education	General and Special Upper Secondary Education	Incomplete Upper Secondary, Basic and Lower Education	Higher and Incomplete Higher Education	General and Special Upper Secondary Education	Incomplete Upper Secondary, Basic and Lower Education
25	50.1	44.6	37.5	55.6	55.2	48.5
30	45.3	40.2	34.0	50.7	50.4	44.4
35	40.6	35.8	30.3	45.8	45.6	40.2
40	35.9	31.4	26.6	41.0	40.9	35.9
45	31.4	27.3	23.0	36.3	36.2	31.7
50	27.0	23.2	19.7	31.8	31.6	27.4
55	22.9	19.5	16.5	27.5	27.1	23.3
60	19.2	16.0	13.5	23.9	22.7	19.4
65	16.1	12.7	11.0	19.6	18.6	15.7
70	13.2	10.0	8.9	16.1	14.8	12.4

Pensioners

In terms of living standards, one of the most vulnerable population groups is pensioners. The average old-age pension in 1995 was 32.4 lats, which was only about 36 percent of the average salary. The programme of pension reform foresees a gradual shift from the existing pension system, which is based on the principle of generational solidarity, to a mixed type of pension system. The latter would consist of a state guaranteed minimum pension, as well as pension funds and voluntary insurance.

The plight of pensioners in all transition countries has worsened, but the significance of this issue in Latvia is heightened by the age structure of the population. The average age of the Latvian population is 36 years, which is one of the highest averages in Europe. The high percentage of elderly inhabitants and low birth rates have serious demographic consequences. For example, Latvia has far more females between the ages of 65 and 69 than between zero and four years. For every 100 Latvian taxpayers there are 87 pensioners. Such an age structure significantly affects the ability of society to mobilize for the transformation, as pensions and other social welfare commitments demand considerable resources from a shrinking state budget. The larger the share of pensioners in society, the smaller the share of those who can actively participate in the transformation of society and hope to reap rewards in the future.

Mortality

The consequences of the transition are particularly evident when one looks at the dynamics of the mortality rate in Latvia. The average length of life is one of the most important indicators of human development, as it reflects both the state of public health and general living standards. Before the Second World War, the average life span in Latvia was longer than in many other Eastern European countries (Bulgaria, Czechoslovakia, Hungary, Poland), many Southern European countries (Greece, Italy, Portugal, Spain) and approximately equal to that in Austria, Belgium, Finland, France and Scotland. The difference between the average life expectancy in

Latvia and the USSR at that time was approximately fifteen years. Even by today's standards, that is a large difference.

World War II and incorporation into the USSR left a lasting impression on public health and vitality in Latvia. Nevertheless, life expectancy continued to increase through the mid-1960s, largely due to decreasing child mortality. At this time, life expectancy in Latvia approached that in Northern and Western Europe and was higher than in Southern Europe (see Table 2.1). However, it should be noted that for the first post-war decade, especially the period of Stalinist repression, there are no statistically credible calculations about changes in life expectancy in Latvia.

Subsequent decreases in life expectancy may be attributed to the pathologies characterizing all of Eastern Europe and the Soviet Union in the 1970s: the backwardness of the social infrastructure, low health care financing, unhealthy lifestyles, exacerbated by the prolonged deterioration of food quality and rampant alcoholism. The brief anti-alcoholism campaign at the beginning of *perestroika* and the rise of the independence movement from 1985 to 1988 caused a rapid increase in life expectancy in Latvia, as in other republics of the former USSR. This was due primarily to a decline in unnatural deaths. The collapse of the USSR, the transition of its satellite states to market economies, the resulting economic crisis and rise in social instability were accompanied by a new, even stronger downturn in life expectancy.

Currently, the highest life expectancy rates in the world have been registered in Japan: 76 years for men and 82 for women. In Europe the highest rates are in Ireland and Switzerland, both with 75 years for men and 81 years for women respectively. The average life expectancy for males in Latvia is 60.7 years — less than it was thirty years ago. Latvia currently has one of the shortest male life expectancy rates in the region, second only to Russia, where the average life expectancy for males in 1994 was 58.2 years (see Table 2.2). For women in Latvia life expectancy today is where it was at the end of the 1950s (72.9 years).

In the last seven years — and particularly during the transition — there has been a sharp decline in life expectancy in Latvia. For men, life expectancy has fallen from 66.3 years in 1988 to 60.7 years in 1994; life expectancy for women over the same period fell from 75.1 to 72.9 years. For comparison, it is instructive to note that the average life expectancy for males in Lithuania has fallen less, though it has fallen significantly from a higher starting point, from almost 68 years in 1987 to 63 years in 1994. On the other hand, in Poland, during the period of economic shock therapy from 1990 to 1993, male life expectancy increased from 66.5 to 67.4 years. In terms of average male life expectancy, Latvia is now surpassed by a series of developing countries. In this regard, the situation in Latvia should be regarded as a crisis which is more severe than in many other transition countries.

The decrease in average life expectancy in Latvia can be attributed to an increase in the mortality rate in the working-age population, especially among those over the age of 35. The situation is especially acute among males. Mortality has increased from all the primary causes of death, especially from all types of accidents and diseases of the circulatory system. As evidenced by standardized mortality coefficients, the mortality rate from the two aforementioned causes is significantly higher in Latvia than elsewhere in Europe. While diseases of the circulatory system account for 35 to 40 percent of all mortalities in Western Europe, the figure for Latvia in 1994 was 56 percent.

The difference between male and female life expectancy is due, at least in part, to alcohol consumption and smoking. According to official data, alcohol consumption has increased from 6.4 litres of pure alcohol per capita in 1993 to 7.8 litres in 1994. Furthermore, this consumption consists mainly of hard liquor: of all pure alcohol (officially) consumed in 1995, 58.9 percent was in the form of vodka, 16.9 percent of wine and 14.6 percent of beer. In comparison, 58 percent of all alcohol consumed in Denmark in 1993 was beer.

In fact, alcoholism and alcohol related problems are close to being a national calamity. Given the widespread consumption of contraband alcohol (both illegally imported and illegally manufactured), official statistics inadequately reflect the gravity of the problem. Some experts claim that real consumption could be as high as 16 to 20 litres of pure alcohol per capita a year, much of which is sub-standard and even dangerous.

Such claims are bolstered by the noticeable increase in the incidence of both alcohol-induced psychiatric illness and alcohol-related death. In 1980 registered alcohol consumption reached a level which has not been surpassed in the last fifteen years (11.3 litres), and there were 19 cases of alcoholic psychosis per 100,000 inhabitants. In 1993 there were 34 such cases per 100,000 inhabitants, but in 1994 — 59 cases. Similarly, mortalities from alcohol poisoning have increased exponentially from 3.6 per 100,000 in 1981 (6.3 men and 1.2 women) to 10.1 in 1993 (17.1 and 4.1) and to 16.7 in 1994. As can be seen, the problem of male alcohol abuse is most acute. In addition, significantly more men (56 percent) than women (17 percent) smoke, and men smoke almost twice as much as women: on average 16 cigarettes a day versus nine.

Particular Challenges for Latvia

When analyzing human development in Latvia, it cannot be forgotten that many social problems predate the transition or have deeper roots. Latvia will not be able to successfully address these problems by simply coping with the transition: they require individual solutions.

Depopulation

A problem which has worsened during the transition period, but whose roots are far deeper is the fall in the population's natural rate of increase to below zero, whereby the annual number of deaths exceeds births. This phenomenon is the outcome of many decades of demographic trends and is not directly linked to the transition period. This is evident from a closer look at a rank ordering of countries according to natural rates of increase in 1994. Albania, a relatively poor country in transition, takes first place with a natural rate of increase of 19.6 per 1,000 inhabitants. On the other hand, highly developed Germany is among the last ten with a negative rate of natural increase of –1.3 per 1,000.

In Latvia, the number of births per 1,000 inhabitants has steadily declined since 1940, reaching 9.5 in 1994. On the other hand, as noted, the mortality rate per 1,000 inhabitants has steadily increased since the mid-1960s, reflecting the progressive aging of the population and the aforementioned rise in mortality among the working-age population. In 1991 the birth and death rates coincided; since then Latvia has had a negative natural rate of increase. In 1994 the natural rate of increase was -6.9 per 1,000 inhabitants, which placed Latvia in last place throughout Europe behind Estonia (– 5.3) and Russia (– 6.1) (see Table 2.2).

Significantly, the decline in the birth rate has halted twice in the last fifty years — at the end of the 1950s and the end of the 1980s, both periods of political liberalization. In analyzing demographic trends in the 1980s, researchers also stress the importance of paid maternity leave, introduced by Soviet authorities at the beginning of the decade, and the impact of Gorbachev's anti-alcohol campaign. The latter factor undoubtedly had a significant effect on the mortality rate, which briefly ceased to rise in the mid-1980s.

In the immediate future there is little hope of stopping the decrease in Latvia's population. Research suggests that if current trends continue, the population of Latvia will fall from the present 2.53 million to 2.14 million in 2015. In the best case, even allowing for a significant improvement in birth and mortality figures back to the level in the late 1980s, the population of Latvia in 2015 could stabilize at around 2.34 million — 200,000 fewer than today.

Latgale

Latvia's eastern region of Latgale is historically and culturally distinct from the rest of the country. Reflecting centuries of Polish rule, it has maintained a strong Catholic identity and is ethnically considerably more diverse than the western regions of Latvia. It has also been burdened by slower socio-economic development, as demonstrated by a number of indicators (see Table 2.4). A number of rural districts in Latgale — around Jekabpils, Daugavpils, Rezekne, Gulbene — have life expectancy rates lower than the na-

tional average. These districts also have slightly lower than average education levels, higher unemployment, a less favourable demographic profile (a higher degree of aging, particularly negative rates of natural increase) and lower average income rates.

In Latvia as a whole, more children tend to live in the countryside, where birth rates tend to be higher. However, Latgale stands out insofar as the average age of the population in rural areas is higher than that in the cities. Territorial differences in life expectancy are primarily due to mortality in younger age groups and the working-age population. All rural districts in the eastern part of Latvia have high mortality rates among the working-age population. Exogenous causes of death (infections and parasitic diseases, diseases of the respiratory system, and accidents) show the greatest regional variation, and mortality is generally higher from these causes of death in the eastern regions of the country.

The eastern districts also have the highest unemployment rates. In 1994, the rate was 23.9 percent in Kraslava, 21.8 percent in Preili, 21.6 percent in Rezekne, 20.2 percent in Balvi, and 17.6 percent in Daugavpils. Unemployment rates were lower in all other districts, and the national unemployment rate in 1994 was 6.5 percent (see also Chapter 3 on **Economic Policies and Changes in Living Standards**).

Riga

Riga has always been a magnet, attracting people not only from the Latvian countryside but also from beyond the country's borders. Since the Second World War it has more than doubled in size. One third of the Latvian population lives in the city itself, and almost one half of the country's population lives in the "greater Riga area". Only a few developed countries have such a high share of their populations concentrated in the capital: Athens in Greece (55%), Lisbon in Portugal (50%) and a few others.

Riga has one of the highest mortality rates in Latvia from a number of causes (genetic developmental disorders, heart attacks, tumors, suicides, traffic accidents). This mortality rate is disproportionate to the availability of public health services and social infrastructure in the city. Correlation analysis conducted about mortality and preventive health care resource indicators shows that the mortality rate is influenced not only by general health indicators and adequate resource allocation for health care institutions, but also by many as yet unknown social, economic, medical, biological and organizational factors. The influence of ecological issues is closely linked with other factors affecting the vitality of the population. Issues related to urbanization and the associated problems of housing, poverty, health, environmental degradation have been addressed by both Latvia and the global community at the UN Conference on Human Settlements (Habitat II) in June 1996 (see Box 2.4).

The Countryside and the Cities

In general, trends in the mortality rate for the urban and rural populations in Latvia are broadly similar. However, life expectancy in rural areas throughout the post-war period has been lower. It should be noted that male life expectancy in the countryside in 1994 was 5.5 years less than in the 1950s, while in the corresponding period the drop in the cities was only 5.1 years. Female life expectancy increased over the same period by 1.1 and 0.5 years, respectively. Changes in average life expectancy for the urban and rural populations are illustrated in Table 2.5.

The frequency of observed nervous system disorders suggests that psychological strain in the countryside is greater than in cities. Research also suggests that alcohol consumption (particularly poor quality alcohol) in rural areas might be significantly higher than in cities. According to Central Statistical Bureau data, rural inhabitants spend half as much on food and paid services as city dwellers.

Mortality rates are higher from diseases of the circulatory system and accidents, as well as diseases of the respiratory system for both men and women in the countryside. On the other hand, mortality from malignant tumors is higher in the cities, which indicates the heightened im-

Table 2.4

Selected Social Demographic Indicators by Region in Latvia

Region	Life Expectancy at Birth[1] (Years)	Persons with Higher and Secondary Education per 1000 inhabitants Aged 15 and Over [2]	Registered Unemployment (%)[3]	Number of Crimes Per 10,000 Inhabitants[4]	Natural Rate of Increase Per 1000 Inhabitants[5]	Average Net Salary[6] (Lats)
National Average Including	70.8	604	6.5	161	- 6.9	60.3
RIGA DISTRICT						
Riga city	71.7	731	2.9	209	- 8.6	68.0
Jelgava city	72.2	644	4.0	229	- 4.8	55.7
Jurmala city	71.1	675	4.4	138	- 7.6	56.6
Bauska dist.	71.1	495	6.8	157	- 3.7	51.6
Dobele dist.	71.2	509	7.7	116	- 2.4	49.1
Jelgava dist.	68.3	466	4.2	186	- 5.7	44.4
Ogre dist.	71.8	571	3.1	125	- 2.8	52.8
Riga dist.	70.3	618	4.6	178	- 4.1	60.8
Tukums dist.	70.1	514	4.6	99	- 3.1	49.0
JEKABPILS						
Jeabpils dist.	69.2	492	14.3	89	- 6.2	47.0
Aizkraukle d.	68.9	510	12.7	124	- 5.7	45.1
Madona dist.	71.2	493	15.1	91	- 4.9	44.2
DAUGAVPILS						
Daugavpils city	70.7	682	7.2	97	- 8.4	55.3
Daugavpils dist.	68.4	424	17.6	98	-11.2	48.5
Kraslava dist.	70.1	436	23.9	110	-12.2	41.4
Preilu dist.	70.5	454	21.8	69	- 6.3	41.3
REZEKNE						
Rezekne city	71.4	620	10.6	161	- 8.3	51.8
Rezeknes dist.	68.6	406	21.6	155	-10.8	38.5
Ludza dist.	68.7	431	12.0	159	-15.5	38.6
GULBENE						
Gulbene dist.	69.6	494	9.4	148	- 3.5	45.8
Aluksne dist.	69.4	499	10.8	106	- 5.5	43.2
Balvu dist.	69.0	435	20.2	138	-12.3	46.0
VALMIERA						
Valmiera dist.	71.1	533	6.2	131	- 5.5	51.1
Cesis dist.	70.7	497	5.3	94	- 3.6	45.2
Limbazu dist.	69.8	474	6.0	124	- 3.9	51.0
Valka dist.	69.5	475	5.8	143	- 7.9	50.3
VENTSPILS						
Ventspils city	71.7	614	2.3	145	- 5.9	118.0
Ventspils dist.	68.5	393	4.5	121	- 4.6	48.3
Talsi dist.	70.3	446	8.2	98	- 3.0	50.1
LIEPAJA						
Liepaja city	71.6	660	7.0	144	- 6.2	59.0
Liepaja dist.	69.2	431	10.5	67	- 4.8	43.5
Kuldiga dist.	71.3	480	11.2	173	- 4.4	475
Saldus dist.	70,6	472	3.5	107	- 1.9	49.1

[1]1988-1989
[2]1989 census data
[3]In 1994 as a percentage of the economically active population
[4]Registered crimes in 1994
[5]In 1994, difference between overall birth and mortality rates
[6]In 1994, salaries not including taxes

pact of carcinogens.

The relation between age and the primary causes of death suggests that differences in the mortality of urban and rural inhabitants are due mainly to social factors. In countries where social differences between urban and rural areas are minimal, for example in Finland, life expectancy and mortality rates for urban and rural areas are virtually the same.

"Health for All," a document issued by the World Health Organization's Regional Office for Europe, sets the goal of reducing differences in mortality rates and life expectancy between various socio-economic groups and regions within a country by at least 25 percent. As evidenced by statistical data and comparative demographic and epidemiological research, even in economically developed countries there are significant differences in mortality and life expectancy rates for urban and rural inhabitants. For example, since the 1960s the mortality rate in the eastern part of Finland has been higher than in the western part, leading to a life expectancy rate two to three years higher in the latter. Other such examples could be cited as well.

There are data showing that territorial differences in life expectancy existed and still exist in Latvia, though these differences are smaller than previously recorded (see Table 2.4). At the end of the 1980s, Latvia's eastern regions and, to some extent, western regions had lower life expectancy rates. Unusually large differences in life expectancy rates are apparent between regional cities and their surrounding areas. The difference in life expectancy between Daugavpils city and region is 2.3 years, between Liepaja city and region — 2.4 years, between Rezekne city and region — 2.7 years, and between Ventspils city and region — 3.2 years. While life expectancy is longer in the cities, mortality from malignant tumors and heart attacks is above the national average. On the other hand, cities (with the exception of Riga) have lower mortality rates from all manner of accidents, suicides and homicides.

Table 2.5

Life Expectancy at Birth by Sex in Urban and Rural Areas in Latvia, 1958-1994 (Years)

	Urban Areas		Rural Areas	
Year	Male	Female	Male	Female
1958-1959	65.2	72.9	65.0	71.8
1979-1980	64.8	74.4	61.0	72.6
1989	66.2	75.4	63.1	74.5
1990	65.1	74.9	62.1	73.9
1991	65.1	75.1	62.1	73.1
1992	63.9	74.9	61.0	74.2
1993	60.2	74.2	59.8	73.2
1994	60.1	73.4	59.5	72.9

Ethnic and Other Differences

An ethnic breakdown of life expectancy rates can be calculated for the two largest ethnic groups in Latvia, the Latvians and Russians. However, it is not possible to derive statistically credible life expectancy indicators for other ethnic groups. Moreover, calculations are only possible for years in which a census took place. As can be seen in Table 2.6, life expectancy is higher for Latvians than for Russians. The difference derives from the fact that many Russians in Latvia immigrated from regions (especially rural regions) which, in terms of the epidemiological transition, lag behind Latvia.

As elsewhere in Europe, those engaged in manual labour in Latvia have higher mortality rates than their white-collar counterparts. In Latvia, though, the difference is considerably larger than in many countries, and this should be a cause for concern. The difference is particularly large among men and the rural population.

Strategic Policy Options

Human development can be encouraged through non-material methods. However, many

changes cannot be implemented without financial resources, especially those available to the state.

Investment Priorities

Firstly, it is necessary to pay attention to state investment priorities. In May of 1995, the Latvian Government presented its investment plan for 1995 to 1997, where state investment priorities were outlined as follows:

- Energy 35%
- Transport 30%
- Environment 9%
- Health 8%
- Education 4%
- Agriculture 4%
- Culture 4%
- Other 6%

Total investments are estimated at approximately 3 percent of GDP, of which 1 percent will come from the state budget and 2 percent from foreign loans. While this division of expenditures is to a certain degree influenced by the availability of foreign loans for individual sectors, it is clear that most investments will go towards developing the economy, minimizing the two other spheres with a critical impact on human development — health and education.

An Analysis of the Budget

While the distribution of investment funds reflects the priorities a state has set for itself, so does the annual budget. Only by analyzing the budget is it possible to understand which sectors receive funding and how effectively funding is utilized. In order to determine whether the Latvian state budget has any reserves that could be targeted specifically towards human development, this budget can be compared to a human development budget model devised by development economists Keith Griffin and Terry McKinley (see Table 2.7).

The very effort to compare encounters a series of complications. One of the most basic is that the structure of the Latvian budget does not conform to the standard World Bank budget classification scheme, which hampers comparison with the other model. The UN model figures are based on percentages of GNP, whereas the Latvian budget figures are based on GDP. There are other significant problems as well, because in analyzing the budget, one encounters differences between the official and unofficial budget, the budget and special budgets, the budget figures accepted by parliament and the figures actually allotted by the Ministry of Finance. These differences obscure serious inequalities in many realms (e.g. the real funding for state schools in various regions can vary considerably).

Table 2.6

Real and Standardized* Average Life Expectancy for Latvians and Russians in Latvia, 1958-1989 (Years)

Years	Life Expectancy at Birth			
	Real		Standardized	
	Latvians	Russians	Latvians	Russians
1958-1959	69.5	69.8	69.5	69.4
1969-1970	70.3	0.3	70.3	69.8
1978-1979	69.3	68.6	69.6	67.9
1988-1989	71.0	70.2	71.4	69.7

* The standard chosen is the division of all Latvia's inhabitants between urban and rural dwellers in the corresponding time period.

But even an analysis of the budget based solely on official calculations soon runs into problems. Take, for example, funding for education. Data provided by the Ministry of Education and Science on total funds earmarked for education and investment in the education system are noticeably lower than figures provided by the Ministry of Finance, which apparently includes other expenses such as payments to pre-school institutions and subsidies to individual programmes, museums and libraries. Neither figure includes the contribution of municipal governments towards financing education, which fundamentally changes the total (see also Chapter 4 on **Education Reform**).

If one tries to determine the percentage of GDP that Latvia expends on "social security," the problems of calculation become even more complex. Strictly speaking Latvia spends less than half of what is foreseen in the model budget on state welfare and social security benefits. But if one includes pensions, which are also paid out of the state social budget, the proportion of GDP devoted to social security (as calculated by the Ministry of Welfare) jumps to 14.7 percent. On the basis of different calculations, Chapter 3 on **Economic Policies and Changes in Living Standards** suggests that approximately 28 percent of GDP (not including indirect support such as poverty and rent benefits) is redistributed through the social protection system. Given the confusion, much still needs to be done in the analysis of the structure of state funding and reaching a consensus on methods of calculation.

According to Ministry of Finance estimates, 4.27 percent of GDP is devoted to "health and family planning." In the model budget, the figure is 5 percent of GNP. For comparison, Lithuania spends 4.9 percent (1994), Estonia 5.3 percent (1994), Norway 7.6 percent (1991), and France a massive 9.1 percent (1991) of GDP for health. But Latvia also finances sickness and maternity benefits from the social budget. This would add a further 0.3 percent. It deserves mention that only an insignificant amount is spent on family planning. Many such public expenditures typically focus on consequences, rather than on root causes and preventive measures. As a result, the number of abortions in Latvia still exceeds the number of births.

Without going into an analysis of individual budgetary categories, it is obvious that the primary drawback of the budget is its small size. For

Table 2.7

A Model Human Development Budget and Latvia's Budget Compared

	UN Model Budget (% of GNP)	Percentage of Model	Latvia's Budget in 1995 (% of GDP)
Education, training	5.0	20	6.3
Health, family planning, etc.	5.0	20	4.3
Social security (incl. social assistance)	4.5	18	2.2
Guaranteed employment programmes	2.0	8	1.0
Economic services	3.0	12	4.1
Defense (incl. the Ministry of Internal Affairs)	2.0	8	3.2
All other expenditures	3.5	14	1.9

example, although allocations for defence and education (by percentage) exceed those of the model budget, it cannot be said that funding for these realms is sufficient. A further example: a relatively large percentage of state and municipal budgets is spent on health care, approximately 10 percent of the state budget and 26 percent of the municipal budget in 1994. Moreover, this percentage has risen sharply since 1990, when the state spent less than 4 percent and municipalities around 17 percent on health care. However, the sum that the state and municipalities allocate to each individual is only one half of that which it should be. In 1995, 41 lats were allocated per capita, while Ministry of Welfare calculations suggested that 80 lats were necessary.

The defence budget in Latvia is 40 percent higher than in the model budget. This reflects the fact that Latvia only recently regained independence and is only in the process of developing its defence and security systems. Furthermore, the public's growing sense of insecurity puts pressure on the government to allocate even more resources to the Ministry of the Interior.

The last column marked "other expenses" contains state budget expenditures for the maintenance of various institutions connected with social security, health care, family planning, professional retraining and rehabilitation and so on. This figure does not include expenditures such as maintaining the State Property Fund, the Privatization Fund, and others. If these expenditures were included, the proportions would be 3.96 percent, i.e. 0.46 percent more than suggested in the model budget.

Considering the size of the deficit, the relatively heavy tax burden, and the slow growth in GDP, it would be over-optimistic to expect a rapid increase in the size of the national budget over the next few years (see also Chapter 3 on **Economic Policies and Changes in Living Standards**). The distribution of expenditures within the budget almost corresponds with that in the model budget. The problem lies in the fact that the absolute size of the budget is quite limited and does not coincide with the level expected by the public. Therefore, there are three ways to improve the situation: increasing the amount of resources available by enlarging the total size of the budgetary pie by facilitating economic growth (see Chapter 3 on **Economic Policies and Changes in Living Standards**), more effective use of existing resources (see Chapter 4 on **Education Reform**), or utilization of non-monetary methods to promote human development (see below and Chapter 5 on **Participation and Strengthening Civil Society**).

The Value System — An Obstacle To Development?

Every society has a common system of values which varies to some degree in different social strata and across individuals. A person's hierarchy of values dictates his/her motivation for action. During the period of rapid political change in the late 1980s and early 1990s when official Soviet ideology collapsed, two rather powerful integrating values united the majority of the population — independence and the democratization of society. With the restoration of independence and the consolidation of classical political freedoms, these values have not lost their importance for the majority of society, but their integrating function has significantly declined. They have become "second order" values. However, the extremely politicized and emotionally tense experience of the awakening has left its mark on the evolution of the current system of values, heightening perceptions of the process of social stratification.

The value system during the transition is shaped by socio-economic reality: a drop in living standards and social instability. Therefore, material welfare and social protection have assumed the primary place in the value system. This is also confirmed by sociological surveys, in which 45 percent of the respondents cite the Nordic countries as a desirable model for future development. This choice is most probably determined by the high living standards and comprehensive social welfare systems in these countries.

According to the results of sociological surveys, Latvian society has been characterized by relatively low value integration during the transition. Two factors bolster this claim. Firstly, there are fairly large differences in the hierarchy of val-

ues of various social strata. Secondly, most of the population perceives contemporary social relations as being a ruthless, "capitalist war of all against all"— in trying to solve everyday problems of survival which dominate one's waking consciousness, the individual can only rely on himself, occasionally on some state support, but very rarely on horizontal social networks. After reaching a high point during the independence struggle, social solidarity eroded under the strains of the deep economic crisis. The public views the existence of value diversity as evidence of interest conflict between various social groups. Characteristically, over the last two years, there has been an increase in the number of people perceiving fundamental differences between the interests of the ruling economic and political elite and those of the rest of the society. Legislative and executive bodies have only just begun to take steps aimed at ameliorating these differences (see Chapter 5 on **Participation and Strengthening Civil Society**).

A view of social reality that includes a sharp separation of the public and the private sphere and suspicion of the elite predates the transition. The origins of such a view may be located in the structure of Latvian society in the nineteenth century. The enormous social divide between the predominantly Baltic German landed gentry and the predominantly Latvian peasantry, the repercussions of economic exploitation under serfdom, as well as the autocratic traditions of the Russian empire created an environment in which most of the populace saw the public sphere as a threat, not a realm where people could harmonize their social needs with each other. A threatening public life was strictly separated from the private sphere, and the pursuit of social interests generally took place in a clandestine manner, with an air of dirtiness and corruption. Private relations and personal contacts are valued more highly than abstract moral norms and official duties.

Revealing examples of this attitude can be found in Latvian literature from this era. The greatest Latvian prose writer Rudolfs Blaumanis depicts this inability to openly harmonize interests in his story "Andriksons," which focuses on the almost tragic failure of a liberal German landlord to transform his relationship with his peasants from the patrimonial lord-peasant model to a more liberal, contractual relationship of landlord-tenant. The learned distrust of the peasant Andriksons towards any proposal by the landlord (which in his experience always harmed the peasant), his ostensibly obsequious but clandestinely disobedient and eventually vengeful behaviour are typical of a person whose upbringing and experience hinder integration into a liberal society. He is incapable of understanding that the fundamental issue in a modern society is not "Who will get whom," but "how do we harmonize our interests."

A similar vision of social life is presented in the first and most famous of Latvian novels, *The Time of the Surveyors* (*Mērnieku laiki*). The surveyor elite is distant and dishonest, and the only way farmers can defend their social and economic interests is through secrecy and corruption. Kaspars, the romantic hero of the novel, assumes the only "pure" position and distances himself from the life of society around him.

Latvia's experience of openness and democracy in the inter-war years was brief, and in the years after the Second World War, the policy of the ruling Communist Party did much towards reinforcing existing suspicions of public life. The *nomenklatura*, a new elite sharply separated from the populace, emerged and public life became more threatening than ever. Consequently, there were even greater incentives for people to distinguish between an "unreal," sterile and usually dishonest official sphere and a "real," clandestine, unofficial life based on personal relationships. All ties of trust and solidarity were severed, except for those within the narrowest circle of friends and relatives. People could overcome this alienation from each other only at some cultural events, for example, at the Song Festivals.

In this context, the awakening was an exception, in that values of solidarity briefly gained the upper hand in society. The structure of society hardened again after the brief period of revolutionary turmoil and old attitudes began to hold sway again. Since 1987 enormous changes have taken place in society and in the positions of many people, but the approach towards social life has remained largely the same among both the elite and the public at large.

Why has there been no sea change in this approach? Of course, a key factor is that many

Box 2.4

Latvia and Habitat II

In June 1996, the United Nations member states will convene the second UN Conference on Human Settlements, commonly known as Habitat II or the "City Summit." The Habitat II conference will discuss sustainable human settlements in an urbanizing world and adequate shelter for all. The Latvian government has created a National Preparatory Committee for participation at the conference. This Committee, in turn, has drafted a National Report containing an assessment of human settlements in Latvia, a national plan of action and proposals for international cooperation.

The global themes of the conference will be the rapid growth of urban populations and the challenges of reducing poverty, guaranteeing affordable housing, and ensuring access to safe drinking water and adequate sanitation to all. The conference will focus on the need to create new partnerships between urban dwellers and national and local governments to improve management of cities, meet housing and infrastructure needs, and improve the urban economy in a way that is sensitive to environmental concerns.

Many of these global themes have particular importance to Latvia, which experienced rapid state-sponsored urbanization, rural transformation and inefficient housing policy under Soviet rule. The population of the capital Riga is seven times that of the next largest city. In the early 1990s, 80 percent of urban settlements and about 95 percent of rural villages failed to provide for high-grade drinking water and adequate sewage purification. The legacy of Soviet rule in the realm of housing will long pose challenges to policy-makers in Latvia: a chronic housing shortage and many high rise apartment buildings that are costly to maintain and energy inefficient. To address issues related to human settlements, the Latvian government created a Ministry of Environmental Protection and Regional Development in 1993. While a number of projects to improve energy efficiency, promote better urban management, and foster cross-border cooperation are currently underway in Latvia, the largest initiatives involve rebuilding the telecommunications infrastructure and constructing a north-south transport route called the Via Baltica to span all three Baltic states.

members of the new elite continue to view their office as a means of promoting their personal welfare. However, if the assumption of leading posts by dishonest officials were the only problem, a responsible public openly and democratically defending its own interests could have changed these leaders with others recruited from the electorate. Unfortunately, the mutual suspicions inherited from the past and the lack of experience in an open society have a profound impact. Incapable of effectively uniting to thwart the rebirth of the previous model of society, the people continue to address their survival needs on an individual basis in the old familiar ways.

This does not mean that people are satisfied with the situation. Whether due to inability, fear, or a lack of faith, the majority of people do not alter their behaviour and thus, reproduce the model of the previous society. In such a situation, protest votes in elections cannot accomplish much either, as they resemble isolated explosions of anger more than the culmination of the systematic work of many socially active people.

This divided model of society and the values that flow from it are serious barriers to human development in Latvia (and in many other transition countries). It undermines trust in both statistical data and political programmes. It hinders the public from openly discussing problems and arriving at solutions. It confounds efforts to build a system based on the rule of law, the foundations of which are to be found not so much in the excellence of its legislation as in the inclination of the public to give priority to abstract norms,

not personal contacts. The gulf between official and unofficial life, between words and deeds means that even the most well constructed policy may end up as a short, loud and ineffective "campaign." Recently, a prominent public figure wrote that "if an individual has to look after himself, then, in a philosophical sense, he is entitled to refuse to pay taxes and fulfill other functions required by the state." Such ideas can only arise by placing the public and private spheres in opposition to each other rather than harmonizing them, an approach that will prevent these two spheres from ever becoming integrated.

If Latvia's political culture does not include a widespread trust of "public virtues," the contribution of "private virtues" to human development is at best contradictory. Material well-being is perceived as an important value, but it is higher in the hierarchy of values than the personal traits necessary to bring about an improvement in living conditions, the most important of which is good health.

As stated earlier, many indicators related to health have rapidly declined in recent years. Unfortunately, this trend could only be halted by a value system stressing the importance of health (see also ***Latvia Human Development Report 1995***). According to sociological surveys, Latvia's inhabitants go to physicians very rarely for medical check-ups. Surveys conducted by the "Prognoze" Sociological Association in 1995 suggest that persons of working age rank money as the most important value, while health ranks only fourth.

A relatively large portion of the public has demonstrated its readiness to take the initiative to secure upward social mobility. This can be seen in the number of private businesses registered in the last three years, as well as in responses to surveys. However, initiative is not always linked to a sense of responsibility for one's actions. Given the current demographic structure in Latvia, one has to contend with the fact that over 40 percent of the population can assume only limited if any responsibility for its own welfare. For the remainder, the situation is complicated by economic hardship. At the same time, one must also consider problems in the realm of social psychology. To a certain degree, people raised in the Soviet system have not overcome the socialist mentality: a desire to receive the support of a widely regulative state which obviates the need for personal responsibility. On the other hand, many have a simplified understanding of market capitalism and do not yet understand that achievements in the socio-economic sphere require an investment of effort and quality work. The understanding that individual freedom, opportunity and personal responsibility are **all** inextricably linked is only beginning to emerge in Latvia.

Undeniably, there are a number of moral and pedagogical levers that can influence human development, but they cannot be separated from a broader set of legal, political, financial and economic reforms, because ideal and material interests and values are inextricably intertwined. In the current situation in Latvia, it is necessary to seek and create a new system of values to lay the foundation for future integration. Such a value system cannot be mechanically copied from that of developed western societies, it needs to be consonant with Latvia's historical development and to take account of the current peculiarities of the social situation. In addition, this value system needs to be pro-active, providing guidance about possible paths of development and some idea about the society of the foreseeable future. At the same time, this value system must assist in revealing possible sources of change in contemporary society.

In order to promote the dissemination of values conducive to development, these values must be linked to and embedded within existing institutions and traditions. One of the most positive Latvian cooperative traditions is participation in choirs and more recently, in folk dancing groups. These forms of cultural activity contain a charge of positive energy — many recall the 1995 Youth Song Festival as one of the brightest moments of recent years. At the same time, since their inception in the middle of the 19th century, the Song Festivals have played a significant role in raising the cohesion and self-esteem of Latvians.

The choirs, dancing groups, and festivals should not be politicized. However, their role in gathering together active people predisposed to cooperation can be utilized by various non-governmental organizations to inform and possibly

mobilize supporters. One non-governmental organization, the Latvian Association for Family Planning and Sexual Health, has already taken steps in this direction by distributing information and contraceptives at the last Youth Song Festival.

The example of the Youth Song Festival also highlights the importance of artistic endeavours in fostering solidarity and activity. It leads one to think that in financing culture, the state should pay more attention to wide-ranging small-scale, local activities and expend fewer resources on grand elite projects, such as the National Opera.

Positive change can also be fostered by tapping in to other traditions. Concern for the environment is a feeling broadly shared by all socio-economic and ethnic groups in Latvia, and the green movement was one of the first and most widely-supported agents of change in Latvia in the late 1980's. This concern for environmental issues could be a catalyst both for fostering solidarity in all parts of the population and for encouraging greater participation.

Recommendations

The foregoing suggests that Latvian society has experienced a serious shock over the last five years — living standards have plummeted, life expectancy has dropped, and financial resources to remedy the situation are scarce.

Recommendations on how to promote positive changes in education, the economy and civil society may be found in other chapters. However, it should be stressed that all those recommendations will affect one of the most essential aspects of human development — health, which is why those recommendations cannot be of a nature that worsen health conditions.

In addition to the above analysis of health and specifically mortality as one of the most important determinants of human development in Latvia, an initial survey of public health was contained in the ***Latvia Human Development Report 1995***. While it was decided that the 1996 Report should focus on other important determinants — economic reform and inequality; education reform; participation and strengthening civil society — positive results in these other key areas may indirectly influence health indicators. An interesting coincidence in this regard is the improvements in life expectancy and the birth-rate experienced during the recent awakening period. This suggests that steps that promote positive participation, thereby strengthening an optimistic view of the future could also have a beneficial effect on human development. Faith in a better future can only come about through belief that the state can act in the interests of the population. This, in turn, is one of the pre-conditions for people to begin to invest more care in their own health.

In order to directly influence this essential aspect of human development, health has to become a value for Latvian society and effective steps must be taken to reduce those factors which most threaten public health. Health as a value must be reinforced in the education system, by introducing health studies as an obligatory subject in primary and secondary schools and by teaching children how to look after their own health (see also Chapter 4 on **Education Reform**). Large scale health campaigns directed at adults need to be undertaken stressing health as a value and highlighting the dangers of smoking and alcohol. Such campaigns must be carefully prepared through prior research on how best to reach men, whose health has been especially threatened over the last few years. Stricter restrictions on smoking in public places should be instituted. State funded health care should devote a greater share of resources to preventive and primary health care, especially that of children. The health insurance system should provide incentives for regular medical check-ups.

Given the significant role decreased alcohol and tobacco consumption has on improving health and increasing life expectancy, the excise tax on alcohol and cigarettes should be increased, while bolstering the effectiveness of the battle against contraband and underground production.

As much as possible should be done to overcome the divide between "official" and "unofficial" reality. Firstly, it must be admitted that such a problem exists, that it has its origins before communism and that it needs to be addressed. The equal value of private and public life must be acknowledged, thereby leading people to a harmo-

nization of these values. Secondly, openness and participation need to be encouraged. Television forums and debates with the participation of state and municipal officials, NGOs, the media and others could be organized on such important issues as the fight against contraband and tax evasion. The participation of viewers through hot-lines, etc. should also be considered. More could be done to institutionalize "public virtues." For example, in Estonia the government has for several years recognized and awarded private businesses whose profits and payments of profit taxes into state coffers have grown the most in percentage terms. Latvia could introduce awards for similar achievements, for example, for the largest increase in exports or number of employees employed over the last year. Such recognition is a relatively cost-effective way to (1) honour those who have contributed to Latvia's development; and (2) strengthen awareness about "public virtues" in society.

UN research in developing countries suggests that overly complex tax systems are ineffective. Such systems usually focus on taxes which are difficult to administer and easy to avoid, for example income taxes. Only 70 percent of those who were expected to declare their 1995 incomes have actually done so. By introducing taxes that cannot be collected, the state not only harms its own budget revenues, but strengthens the harmful division between "official life" (tax laws) and the "unofficial sphere" (tax avoidance). Tax laws should be simplified and brought into line with the capacity of the state to collect.

The government has proclaimed the necessity of tax relief to promote development in backward areas, and this promise should be implemented (see also Chapter 3 on **Economic Policies and Changes in Living Standards**). At the same time, tax policy should not inhibit businesses from investing in the education of their employees, as is the case now, when the cost of employee training must be taken from company profits rather than included in operating expenses.

Current legislation does not encourage the establishment of credit unions, despite the fact that this type of self-help financial organization is one of the means of simultaneously strengthening solidarity among the population and improving material well-being. Banking legislation must be changed in order to give credit unions the same advantages as they enjoyed in pre-war Latvia and as they now enjoy in many western countries.

A certain percentage of foreign aid should be channeled toward the commissioning of independent and publicly available studies of important social problems, for instance, the structure of the budget, the reform of the health care system, etc. Some surveys of this kind have already been made (the ***Human Development Report***, the NORBALT Living Conditions project), but there has been a lack of resources to fund objective, independent and publicly accessible analyses.

In order to compare and analyze data more effectively, it is necessary to introduce the World Bank budget classification system.

Analysis is needed on why, despite its relatively developed social infrastructure, Riga still has some of the highest mortality rates from certain causes. Despite occasional public discussion of Riga as the "swollen head" of Latvia, this issue has never been seriously analyzed. Whether such a population concentration in the capital is detrimental or not is an issue of importance to the future development of Latvia as a whole. This question could be discussed in the context of the upcoming preparations for the 800th anniversary of Riga.

As early as 1990, the first government formed after the restoration of independence promised state support to reduce backwardness in Latgale, but the development gap with the rest of the country has only grown in the last six years. Research is necessary to determine why earlier programmes have not borne results, and more effective means of overcoming inequality must be found.

Finally, although the percentage of the Latvian state budget allocated to human development priorities — education, social welfare — corresponds approximately to levels set out in the model human development budget, the absolute size of Latvia's budget remains very limited due to several factors. Hence, in order to address Latvia's human development challenges more effectively, priority must be given to facilitating economic growth, a subject to which the Report now turns.

Chapter 3

Economic Policies and Changes in Living Standards

Introduction

Human development is a comprehensive perspective on development which assesses economic and social policies on the basis of whether they expand and enhance human capabilities. A well distributed growth of incomes, education and health facilitate human development and thereby the related expansion of choices available to people.

As the concept of human development is a holistic one which encompasses economic growth, an analysis of Latvia's economic policies and their effect on the people of Latvia is required. This is particularly so as the prospects for improved human development in Latvia have to this point been limited by a significant drop in output and the subsequent decline in education, health and social protection. With income falling, there is little that can be done to address human development priorities. While economic growth is but one of several means to human development, it is clear that at this stage in Latvia's transition the country's falling human development indicators can only be reversed through a revival of growth and incomes.

As outlined earlier, while the percentages of the current budget allocated to human development priorities correspond approximately to those in a model human development budget, the impact is limited due to the restricted absolute size of the budget itself. Consequently, a top priority for improved human development in Latvia is to increase the size of the budget through increased economic growth and productivity; in turn these require investment in people and an enabling macroeconomic environment for the people of Latvia to achieve their maximum potential. Clearly, specific attention must continue to be placed on macroeconomic stabilization and the need for greater microeconomic reform.

However, it is also clear that growth alone is not enough; the use of this growth by Latvian society is as important as the generation of income itself. As noted in the previous chapter, one important economic measurement that does stand out in Latvia and merits further attention is the rapid increase in income inequality; in other words, the rich are getting richer, while the poor are getting poorer.

Consequently, the quality of economic growth is just as important as its quantity. Conscious public policy, such as public spending on social services and fiscal policy to redistribute income and assets, is required to translate economic growth into improvements in the lives of all the people of Latvia. This chapter will analyze both these aspects — economic policies and changing living standards — in more detail and then outline a number of recommendations on how public policy in these areas can best be combined to improve human development.

Overview of Macroeconomic Indicators

The initial stage of economic reform in Latvia in 1991-1992 witnessed an enormous drop in manufacturing, instability in the financial system, rapid price rises and the threat of hyper-inflation. As a result, living standards plummeted (see also ***Latvia Human Development Report 1995***). As reforms continued, the strict fiscal and monetary policy of the government and the Bank of Latvia in 1993-1994 contributed to the stabili-

zation of the economic situation. In 1994, for the first time since the restoration of independence, the main indicator for economic growth, gross domestic product (GDP), rose (by 0.6 percent) instead of falling. Initially, the forecast for 1995 was for an even greater rise of 1 to 1.5 percent.

In 1995, GDP in Latvia declined by 2 percent (in 1993 constant prices), primarily because of the banking crisis and the growing budget deficit (see Tables 3.1, 3.2 and 3.3). The turnover for retail goods (excluding restaurant turnover) in 1995 was approximately 600 million lats (in 1994 constant prices), a decline of 6.6 percent compared to 1994. The Central Statistical Bureau of Latvia (CSB) has calculated that industrial production in 1995 totaled 1.025 billion lats (FOB) in current prices, which was less than the 1994 total of 1.076 billion lats. In comparative prices, production fell by 6.3 percent from 1994 to 1995 (see Table 3.4).

Important factors for increasing the prospects for growth are privatization and investments to promote more efficient production. While 1995 has certainly been the most active year for privatization, the privatization process has lagged and still lags behind the rest of the reform process and structural reform of enterprises is very slow. The process of privatizing state property in Latvia started two years later than in Estonia, and owners were first found for arguably the worst enterprises, not the best. In 1995, a total of 240 enterprises were privatized, representing 12 percent of all state-owned enterprises. The international tender programme has not been as successful as had been hoped. Since privatization began, Latvia has offered 125 enterprises to foreign bidders in three rounds of international tenders. Initially there were over 2000 responses, but in the end there were only 40 realistic offers to buy these enterprises.

Table 3.1

Gross Domestic Product in Latvia and Other Countries 1994 (Current Prices)

Country	GDP (millions of US dollars)	Per Capita GDP (US dollars)
Denmark	146.1	28149.0
USA	6738.4	26159.4
Norway	110.1	25551.7
France	1329.3	23054.2
Germany	1834.9	22600.2
Sweden	196.6	22468.3
Finland	97.9	19279.9
Spain	482.8	18895.9
United Kingdom	1023.2	17666.5
Greece[1]	73.1	7063.7
Czech Republic[1]	31.6	3059.3
Slovakia	12.4	2336.3
Poland[1]	85.9	2233.4
Estonia[1]	1.7	1136.8
Romania[1]	24.8	1088.8
LATVIA	2.8 (3.7)*	1084.9 (1437.0)*
China[1]	364.0	304.3

[1]1993 indicators from IMF data (July 1995)
*Corrected CSB data

The lack of interest expressed by foreign investors described above begs the obvious question — why? Simply put, Latvia has not fared well in creating a hospitable environment for direct foreign investment. Current restrictions on land ownership by foreigners, conditions of sale regarding investments and employee retention imposed by the Latvian Privatization Agency (LPA), and (until recently) discriminatory treatment of foreign investors vis à vis local investors are all factors which have discouraged foreign investors from pursuing investment opportunities in Latvia. According to statistical data provided by the International Monetary Fund and the World Bank, foreign investment in Latvia per capita for the period 1992-1994 was US$ 55. In Estonia, where the investment climate is equally favourable for local and foreign investors, the corresponding figure for the same time period was US$ 279 (see Table 3.5).

However, not all economic news was bad in 1995. Inflation continued to fall, unemployment remained relatively low, and the national currency, the lat, remained stable.

Key Economic Events of 1995: The Collapse of *Banka Baltija* and the Ensuing Financial Crisis

Without a doubt, the main economic event of 1995 was the banking crisis, which culminated in the insolvency of *Banka Baltija*, the largest commercial bank in the Baltic states. The banking crisis reverberated throughout the economy and altered all earlier economic growth projections. The primary factor behind the crisis was the extremely rapid development of the banking sector. In a very brief period, banks evolved from small financial institutions into rather complex business structures and, in many cases, the experience and management abilities of bankers did not keep pace with changes. The experience and regulatory oversight of state structures (including the Bank of Latvia) also proved inadequate. This allowed not only opportunists, but also some fraudulent bankers to operate in the banking sector.

The immediate cause of the crisis was low liquidity of bank assets. The following factors affected liquidity:

- Shareholders had too much influence in resolving issues — especially the extension of credit — within the jurisdiction of the board of directors;
- For some months in 1994, interest rates for deposits exceeded interest rates for loans;
- Credit portfolios in some banks were created under the assumption that the value of the lat would decrease in relation to the US dollar in 1994. In fact, in 1994 and the first quarter of 1995, the value of the lat continued to increase against the US dollar and real income from dollar assets fell;
- When significant funds flowed into the banking system in 1994, there were few promising investment projects. Loans were either not extended and the money was retained as additional reserve funds in the Bank of Latvia, or loans were extended for dubious projects. In either case, insufficient funds were gained to repay deposits.

The banking crisis affected some 20,000 businesses and 200,000 to 250,000 private individuals. With the insolvency and bankruptcy of *Banka Baltija* and other banks, individual depositors lost deposits in the amount of 35 million lats (approximately US$ 64 million). At the same time, debts to legal entities (businesses) total approximately 65 million lats. The removal of 65 million lats in goods and services from circulation has had far-reaching consequences: a general decrease in the amount of working capital available to businesses; an increase in enterprise arrears due to the inability to pay for the delivery of goods and services in a timely fashion; and an increase in credit liabilities, because operating funds can only be obtained by way of credit. Every business is both a consumer and a supplier, and the reduction of current assets has a multiplier effect. According to some estimates, freezing 65 million lats of deposits (accounts) is equivalent to removing 150-180 million lats from circulation in the economy.

Table 3.2

Real GDP Growth in Eastern Europe, the Baltic States and the CIS, 1990-1995 (Percentage Change on Previous Year)

Country	1990	1991	1992	1993	1994	1995*	1995** (1989=100)
Albania	-10	-28	-10	11	7	6	75
Armenia	-7	-11	-52	-15	5	5	37
Azerbaijan	-12	-1	-23	-23	-22	-15	35
Belarus	-3	-1	-10	-12	-22	-10	54
Bulgaria	-9	-12	-7	-2	1	3	75
Croatia	9	-14	-9	-3	1	2	84
Czech Republic	0	-14	-6	-1	3	4	85
Estonia	-8	-11	-14	-7	6	6	74
Macedonia	-10	-12	-14	-14	-7	-3	53
Georgia	-12	-14	-40	-39	-35	-5	17
Hungary	-4	-12	-3	-1	2	3	86
Kazakstan	0	-13	-13	-12	-25	-12	44
Kyrgyzstan	3	-5	-25	-16	-27	-5	43
LATVIA	3	-8	-35	-15	2	1	54
Lithuania	-5	-13	-38	-24	2	5	42
Moldova	-2	-12	-29	-9	-22	-5	42
Poland	-12	-8	3	4	5	6	97
Romania	-6	-13	-10	1	3	4	81
Russia	-4	-13	-19	-12	-15	-3	49
Slovakia	0	-15	-7	-4	5	5	84
Slovenia	-5	-8	-5	1	6	6	94
Tajikistan	-2	-7	-29	-11	-21	-12	40
Turkmenistan	2	-5	-5	-10	-20	-5	63
Ukraine	-3	-12	-17	-17	-23	-5	43
Uzbekistan	2	-1	-11	-2	-3	-4	82
Eastern Europe and Baltic States average	-8	-10	-3	1	4	5	88
CIS average	-4	-12	-18	-13	-17	-4	48

* forecast
** real Gross Domestic Product (GDP) taking 1989 to be 100

The EBRD includes estimates of the "shadow economy" in its calculations of GDP. The "shadow economy" also accounts for a great deal of value in the economy. If it were not taken into account GDP would be much lower.

Table 3.3

Changes in GDP in the Baltic and Nordic Countries,1991-1995

(Constant Prices, Percentage Change on Previous Year)

Country	1991	1992	1993	1994	1995
Estonia*	-13.6	-14.2	-8.6	-3.2	
LATVIA	-10.4	-34.9	-14.9	0.6	-2.0**
Lithuania*	-13.1	-34.0	-30.4	1.0	
Denmark*	1.0	1.3	1.4	4.4	
Iceland*	1.3	-3.3	1.1	2.7	
Norway*	1.6	3.4	3.3	5.1	
Finland*	-7.1	-3.6	-1.2	4.4	
Sweden*	-1.1	-1.4	-2.6	2.2	

* no data for 1995
** CSB corrected data

The total amount of individual deposits, business accounts, credits and so forth, lost in the collapse of *Banka Baltija* was at least 150 million lats. In mid-1995, the deposits of private individuals at *Banka Baltija* made up approximately 40 percent of individual deposits in all commercial banks in Latvia. In the summer of 1995, in return for all shares of the bank, the government agreed to guarantee deposits, promising to compensate a total of 500 lats to each depositor, 200 lats within a year and the remaining 300 lats over the next three years. As compensation of 200 lats to all private depositors would have required 26 million lats, the government was unable to fulfill its promise. After the Sixth Saeima elections in autumn 1995, the new government disavowed the promises of its predecessor.

The Bank of Latvia suspended *Banka Baltija's* operations in May 1995 and in December 1995 the Commercial Court pronounced *Banka Baltija* bankrupt. Intrigue has continued to surround the bank, as in February 1996 an appeal to the Riga District Court temporarily overturned the decision of the Commercial Court. In early April 1996 the Riga District Court once again declared *Banka Baltija* bankrupt. The lack of clarity in pronouncing the bankruptcy of *Banka Baltija* has cast a shadow on Latvia's international prestige and this has clearly had a negative impact on foreign direct investment.

The Bank of Latvia has recently improved regulatory oversight of commercial banks, but problems still remain. The number of deposits in commercial banks declined towards the middle of last year, as did the amount of credit extended. In 1995, the overall average interest rate for credit was 27.4 percent, which is too high a rate for manufacturing to develop in the country. While banks are not interested in accepting small deposits and granting small loans, depositors have also lost trust in banks. A February 1996 survey conducted by the Baltic Data House shows that 80 percent of the population does not trust the banking system. Over a period of seven months, only five percent of the population regained trust in banks.

Table 3.4

Industrial Production Index in the Baltic and Nordic Countries, 1991-1995 (As Percentage of Previous Year's Production)

Country	1991	1992	1993	1994	1995
Estonia	92.8	64.8	81.3	97.0	
LATVIA	99.4	65.5	67.9	90.1	93.7
Lithuania	95.2	71.4	65.6	68.2	
Denmark	02.2	101.7	97.2	105.6	
Norway	102.1	106.5	103.9	108.0	
Finland	91.2	101.3	105.4	110.8	
Sweden	94.4	96.5	102.5	108.3	

Growth

As mentioned at the outset of this chapter, Latvia's GDP performance in 1995 was lower in comparison to pre-banking crisis expectations. Predictions for GDP growth in Latvia for 1996 are consequently very guarded: only 0.3 to 0.5 or at most one percent compared to 1995. Similar pessimism exists about the development of banks, and the credit and monetary systems. A few experts predict higher GDP growth, at one to two percent compared to 1995 in constant prices, but most agree that growth will remain low over the next two years.

At the end of 1995, the European Bank for Reconstruction and Development (EBRD) issued a report on economic development in Central and Eastern European countries in transition, including the Baltic States and Republics of the former Soviet Union. The report concludes that countries in transition will have to work long and hard to attain the same economic level as the advanced industrial countries: their economies will need a seven percent annual GDP growth rate for 30 years. Unfortunately, economic growth at such a rate has not been achieved in any of the countries in transition (see Table 3.2).

From a human development perspective, an increase in overall growth would generate more revenue and thus increase resources for pensions, education and other social needs (assuming steps are taken to ensure a sustainable redistribution of the newly-generated wealth). However, the key to economic growth is a healthy rate of savings and investment. The triple-digit inflation during the initial phase of the transition depleted virtually all domestic savings accrued by that time. In addition, the need to finance the government's budget deficit, combined with low rates of foreign investment and the heavy tax burden borne by employers all contribute to Latvia's low overall level of investment. Outdated equipment and technology continue to prevent Latvia from producing manufactured goods that can compete on the global market. Clearly, investments today equal job creation, and GDP growth and thus potential for increased human development tomorrow. The challenge is to take the most appropriate steps to clear the obstacles from the road to increased investment.

Inflation

Inflation (the consumer price index) in Latvia has continually decreased over the past several years. The annual consumer price index decreased from 34.9 percent in 1993, to 26.3 per-

cent in 1994, to 23.1 percent in 1995 (see Table 3.6). Seen in the broader Baltic context, Latvia has the lowest inflation rate in the Baltics, just marginally lower than Estonia's.

Although inflation continues the downward trend of the past few years, coordination between macroeconomic stabilization and economic reform measures has been insufficient to adequately reduce or "soften" the consequences of the transition. A good example of this lack of coordination is tax reform as it pertains to revenue collection. As will be outlined later, the government's tax revenue collection difficulties have contributed to the large budget deficit which, in turn, has restricted the ability of the government to raise state sector wages and pensions and provide other means of social support. Thus, even though inflation has fallen, prices remain at prohibitive levels for many people dependent upon the state for their income. Consequently living standards have fallen for a significant proportion of the population.

Table 3.5

Per Capita Foreign Investment in Eastern Europe and Russia, 1992-1994 (US Dollars)*

Hungary	648.4
Estonia	278.6
Czech Republic	239.9
Slovenia	122.3
Poland	94.9
Romania	94.9
Slovakia	63.9
LATVIA	54.6
Croatia	48.9
Lithuania	40.5
Albania	38.5
Bulgaria	23.2
Russia	15.4
Ukraine	6.0

*Foreign investment divided by 1993 population

Unemployment

Despite Latvia's low overall rate of investment, the unemployment rate in the country has stabilized (see also ***Latvia Human Development Report 1995***). On 1 July 1995 unemployment stood at 6.1 percent; after rising to 6.6 percent in early January 1996, it had returned to 6.1 percent of the economically active population of Latvia by April 1996. Disregarding seasonal fluctuations, unemployment had already stabilized at six percent in 1994. As in other Central and Eastern European countries, Latvia also has hidden unemployment, which is estimated to be another eight percent of the economically active population.

The unemployment rate tends to be higher in rural areas as compared to Latvia's major cities, such as Riga, where in early April 1996 the unemployment rate stood at only 3.3 percent. As noted in the previous chapter, the eastern region of Latgale has been the hardest hit, and in some districts the unemployment rate is more than triple the national average. Specifically, as of early April 1996 as much as 22.6 percent of the labour force of the Rezekne district was unemployed. This is largely due to the demise of the agricultural sector in Latvia and raises serious implications for structural change in the economy. Moreover, this underscores the need for worker retraining and regional development strategies.

In general, though, the total level of unemployment in Latvia is lower than in many other countries in transition. It should be noted that many enterprises in Latvia still employ too many employees, productivity is low, and many people are still working in extremely inefficient and protected public sector jobs. If the privatization process accelerates and new technologies are introduced, the unemployment rate could increase significantly in the next few years. In this regard, the importance of a strategic plan for regional development cannot be overstated, especially for the regions hardest hit by unemployment.

Other Economic Indicators

The Budget Deficit

The Law on the State Budget for 1995 initially provided for the deficit of the basic state budget to be no greater than 40 million lats. However, the banking crisis described earlier in this chapter negatively affected government revenues and the budget deficit increased. The tax base shrank and public distrust of the commercial banking system led to greater reliance on cash transactions, which made tax administration and control even more difficult. State revenues were less than planned and it was difficult to fully fund social and other programmes.

As a result, the Law on the State Budget for 1995 was amended in the latter part of the year to allow for a basic budget deficit of 92.4 million lats. The main sources of deficit financing for 1995 were short-term government treasury bills sold in the domestic market, and securities sold abroad. Credit extended by the Bank of Latvia was also used to cover the 1995 budget deficit. The state's internal debt for 1995 was approximately 162 million lats, a sum composed of government bonds, treasury bills and bank credit. Internal debt derives largely from the need to service the sizeable budget deficit. The Sixth Saeima (Parliament) approved a state budget for 1996 that includes expenditures of approximately 460 million lats and a deficit of 59.39 million lats.

The 1996 state budget was based on the optimistic assumptions that GDP would increase by 2.5 to 3 percent and inflation would decline in 1996 to less than 20 percent a year. At the same time, the government has set itself the goal of accelerating privatization and structural reforms. To achieve these goals, the supply of money in circulation in the Latvian economy must not in-

Table 3.6

Inflation (Consumer Price Index) in the Baltic States and Selected Countries in Eastern Europe and the CIS, 1991-1995 (Annual Growth %)

Country	1991	1992	1993	1994	1995*
Belarus	93	1558	1994	1875	260
Bulgaria	339	79	64	122	50
Croatia	149	937	1150	-3	3
Czech Republic	52	13	18	10	10
Estonia	304	954	36	42	22
Hungary	32	22	21	21	28
LATVIA	262	958	35	26	23
Lithuania	345	1175	189	45	30
Moldova	162	2198	837	98	20
Poland	60	44	38	30	23
Romania	223	199	296	62	30
Russia	144	2318	841	203	145
Slovakia	58	9	25	12	10
Slovenia	247	93	23	18	10
Ukraine	161	2000	10155	401	150

* forecast

Table 3.7

Latvia's External Debt Compared to GDP and Exports (Millions of Lats)

Indicator	1993	1994	1995	1996*	1997*	1998*
GDP real prices	1467.0	1914.1	2360.7	2599.6	2818.6	3107.2
External debt	138.2	188.5	216.4	339.9	326.9	323.5
External debt service payments	6.3	15.3	15.3	38.0	68.7	43.4
Export of Goods	675.6	553.4	688.4			

*Ministry of Finance projections

crease by more than 25 to 30 percent. Assuming that the budget deficit for 1996 will be approximately 60 million lats and that the government will have to borrow an equivalent amount from the Latvian banking system to finance the deficit, only 12 to 15 percent of domestic credit will be available for the private sector. Under such conditions, the government's projected economic growth rate of three percent and intentions of implementing structural reform will most probably not be possible.

External Debt

The limited size of Latvia's total budget and the lack of domestic credit resources has prompted Latvia to seek external financing for a variety of needs. In 1995, Latvia's total external debt approached 380 million lats. Projections over the next few years suggest that external debt will not exceed 14 percent of GDP, as agreed by the government and the IMF (see Tables 3.7 and 3.8). Table 3.9 shows external debt as a percentage of GDP for the Baltic and Nordic countries. Latvia's current level of debt does not pose serious long-term difficulties. However, the composition of loan terms could lead to a concentration of capital payments in one or two years.

In accordance with an agreement with the IMF, Latvia's external and internal debt should not exceed 18 percent of GDP. Two or three years ago, during the rapid decline in production and GDP, some international loans went towards cushioning the fall. However, a portion of the loan money (e.g. G-24 credits) was used to finance projects of questionable economic rationale, and some of the money was simply lost through poor administration.

The Exchange Rate and the Purchasing Power of the Lat

The exchange rate of Latvia's currency, the lat, has been the subject of heated debate in Latvia. In order to properly evaluate development levels in various countries, it is important to have GDP figures which are calculated according to a comparable method. Such a method involves calculating purchasing power parities (PPP), which indicate how much of the currency of a given country would need to be spent to purchase an identical amount of goods or services. Together with Austria's Central Statistical Office, the European Union's statistical administration and the

Organization for Economic Cooperation and Development (OECD), the Central Statistical Bureau of Latvia conducted a joint study on purchasing power parities for 1993. On the basis of this information, the CSB has also recalculated figures for the main economic indices for 1994.

The results of the joint study show that the lat has not been overvalued, as many have claimed, but undervalued, and that this is the case for the national currencies of all three Baltic States — the Estonian kroon, Latvian lat and Lithuanian litas. The study found that the Lithuanian currency was undervalued by a factor of 5.9, the Latvian currency by a factor of 4.4, and the Estonian by a factor of 4.1. In 1994 the currencies were still undervalued but the ratios were slightly smaller as a result of inflation and other factors: 4.3 times too low in Lithuania, 2.9 times too low in Latvia, and about 3 times too low in Estonia.

If Latvia's GDP is converted to Austrian schillings using purchasing power parity, the result is considerably higher than when the official exchange rate is used (see Table 3.10). Using purchasing power parity, Latvia had a per capita GDP of US$ 3063 in 1993. However, using the official exchange rate, per capita GDP in 1993 was only US$ 840. Using purchasing power parity, Lithuania and Estonia both had a higher per capita GDP in US dollars in 1993 than Latvia: US$ 3665 in Lithuania and US$ 3797 in Estonia. When the official exchange rates are used, the corresponding figures were considerably lower: US$ 685.5 in Lithuania and US$ 1092 in Estonia.

In advanced industrial countries the official currency exchange rate is usually very close to the purchasing power parity. In Latvia the two rates are converging, as inflation is slowly eroding the difference.

Privatization

Although some in Latvia believe that privatization attained the appropriate pace in 1995, international financial institutions have concluded that privatization of large state enterprises in Latvia is taking place slower than in Estonia or Lithuania and that the process only really began in Latvia in 1995. First of all, much time was expended in drafting new privatization legislation, a process which drew to a close in spring 1994. Only then did the Latvian Privatization Agency (LPA), established to deal with all aspects of privatization, begin to take action. Each step in the privatization process was worked out in minute legal detail, which later led to large amounts of time-consuming permits and other documents. In 1995 the privatization of one state enterprise required at least five months.

At the beginning of 1995, the Cabinet of Ministers adopted a Privatization Programme which set the goal of privatizing approximately 75 percent of all state-owned enterprises by the end of

Table 3.8

Latvia's External Debt Compared to GDP and Exports (%)

Indicator	1993	1994	1995	1996*	1997*	1998*
External debt as % of GDP	9.4	9.8	9.2	13.1	11.6	10.4
External debt service payments as % of exports	0.9	2.8	2.3			

* Ministry of Finance projections

Table 3.9

External Debt in the Baltic and Nordic Countries (As % of GDP)

Country	1992	1993	1994
Estonia	1.1	8.0	7.5
LATVIA	3.7	9.4*	9.8*
Lithuania	14.5	5.3	16.0
Denmark	35.3	31.0	26.9
Iceland	47.7	54.1	53.1
Norway	8.8	6.4	3.5
Finland	48.2	54.7	51.2
Sweden	36.1	44.0	-

*CSB corrected data

1996. The primary thrust has been towards attracting direct investment, including foreign investment for enterprises, especially in industry. As stated earlier in this chapter, foreigners were first offered the least successful enterprises, which led to a decline in foreign interest in purchasing Latvian enterprises and to a drop in direct foreign investment. As in Estonia, there are few cases of enterprises being privatized by employee and management buy-outs.

In the second half of 1995, the process of turning over state enterprises for privatization from the State Property Fund to the Latvian Privatization Agency was delayed. It appears that many state enterprises have powerful lobbies within Ministries and Parliament (see also Chapter 5 on **Participation and Strengthening Civil Society**).

Of Latvia's approximately 2,000 state owned enterprises, 275 state properties had been privatized and 450 were still in the privatization process by the end of 1995. In total, 37 million lats were received for the 240 enterprises sold in 1995. The conditions of sale for most enterprises privatized required the new owner to make investments over a specified period. Although the total amount of investments required to be made in privatized enterprises totals 18 million lats, the new owners of the enterprises are also required to assume the debts of these enterprises — a total sum of 13 million lats. Clearly, the net required investments (5 million lats) are insufficient to ensure efficiency and rapid growth for these enterprises. The assumption of enterprise debt also restricts the amount of voluntary investment a new owner may put into an enterprise.

Another important condition of sale in most privatized enterprises is the retention of employees for a certain period of time after privatization. In 1995 a total of 13,500 jobs were maintained in over 230 privatized enterprises. Such conditions pose difficulties for the new owners in terms of restructuring enterprises in the interests of efficiency and productivity, and may even serve as deterrents to foreign investment.

Cooperation between the Latvian Privatization Agency and the State Property Fund (SPF) throughout the privatization process has been inadequate. The State Property Fund was created to manage state property and enterprises until such time that they could be handed over to the LPA and privatized. While supervision by the State Property Fund improved in 1995, the poor performance of state enterprises continued to be problematic, the SPF continued to incur debt and the government decided in April 1996 to liquidate

Table 3.10

Results of the Survey of 1993 Purchasing Power Parity (National Currency Against the Austrian Schilling)

Country	Official Exchange Rate	Purchasing Power Parity
Austria	1.000	1.000
Sweden	0.670	0.712
Finland	0.492	0.439
Norway	0.610	0.643
Poland	1560.230	624.681
Czech Republic	2.506	0.757
Hungary	7.907	4.150
Russia	76.435	16.468
Romania	68.240	17.203
Belarus	210.870	14.284
Bulgaria	2.382	0.608
Croatia	306.393	168.115
Slovakia	2.646	0.798
Slovenia	9.726	5.641
Ukraine	417.660	62.994
Moldova	0.143	0.017
Estonia	1.136	0.278
LATVIA	0.058	0.013
Lithuania	0.344	0.059

the SPF and establish a new State Real Estate Agency to oversee and manage state property.

There were, however, some definite positive signs in 1995. The government began the process of privatizing large, strategically significant enterprises. This was done cautiously, at first offering a small part of company shares for privatization to foreign investors. In the first round of privatization of one of Latvia's largest state joint-stock companies, *Latvijas gāze* (Latvia Gas), 32.5 percent of all shares were offered to strategic foreign investors. After evaluation of the first stage, the next stage of privatization will be started.

Foreign Investment

Due to high interest rates and the lack of domestic savings, the speed and success of privatization in Latvia is closely linked to foreign investment. The response from foreign investors has not been as enthusiastic as initially anticipated.

According to the Latvian Privatization Agency, the rate of direct foreign investment in Latvia decreased last year. The Central Statistical Bureau of Latvia has calculated that by September 1995, direct foreign investment in Latvia totaled 260 million lats. The increase in 9 months was only 88 million lats, although there had been hopes of a much greater increase. Many foreign investors lost interest in Latvia in 1995 as a result of the bank and financial crisis, especially after the insolvency and bankruptcy of *Banka Baltija*.

Foreign Trade

Another measure of Latvia's economic vitality is its trade performance. Foreign trade turnover in 1995 increased to 1.6 billion lats (FOB prices). However, in 1995 the balance of foreign

trade remained negative, just as in 1994. Imports exceeded exports by approximately 235 million lats in 1995 or by 34 percent (exports totaled 688 million lats; imports 923 million lats). This import-export balance reflects the increase of trade between Latvia and Western European countries. Imports from these countries exceeded exports by 44 percent. In 1994, exports to Russia and the rest of the Commonwealth of Independent States surpassed imports by 25 million lats, but in 1995, the trade balance with the East remained close to zero. Current trends in foreign trade suggest that imports will continue to surpass exports. While the trade deficit in 1995 totaled 235 million lats, predictions for 1996 are for a larger deficit of 280 to 290 million lats or more.

The level of foreign trade turnover does not affect overall economic growth as much as does the composition of that trade. As Latvia is poor in natural resources, its economy depends on importing raw materials to produce finished or half-finished goods. If imports consist mostly of new equipment and technology, that is a positive sign, because the purchasing of such goods indicates reconstruction in the manufacturing sector. Modernization of equipment could lead to efficiency and productivity gains and thus increase Latvia's competitiveness in international markets. As production increases, GDP would also grow, and more resources could be devoted to the social sector. Therefore, a negative foreign trade balance might be seen as justifiable if imports of consumer goods decline and those of machinery, equipment and new technology increase and some imports are replaced by local production (for example, food products, household items, clothing).

The Shadow Economy

The shadow economy, defined as unregulated or illegal economic activity, plays a significant role in transition economies. The legislative and administrative disorder associated with transition leaves many opportunities for economic activity to go unchecked by the authorities. On one hand, such "activity" allows many to survive the harsh realities of transition (e.g. the unemployed factory worker performing auto repair services for cash). Usually, though, the shadow economy refers to tax evasion and trade in contraband.

Table 3.11

Shadow Economy as Share of GDP (%)

Country	Shadow economy included in GDP calculations	Shadow economy not included in GDP calculations
Poland	6	10
Czech Republic	5 - 7.5	5 - 7.5
Hungary	12	18
Russia	19.2	no data available
Romania	9	no data available
Bulgaria	16.8	< 10
Slovakia	10.8	3
Slovenia	9.5	7 - 11
Moldova	5.8	no data available
Estonia	2	no data available
LATVIA	14	no data available
Lithuania	14	no data available

Until recently, experts estimated that the shadow economy in Latvia accounted for about 30 percent of the economy as a whole. With the financial support of the European Union's statistical research organization EUROSTAT and the United Nations Economic Commission for Europe (ECE), the Central Statistical Bureau of Latvia (CSB) recently completed a thorough study which indicates that this estimate is inflated and that the shadow economy accounts for approximately 14 percent of GDP (see Table 3.11). The CSB has already included such a value in calculations for the GDP for 1994. The size of the shadow economy still unaccounted for by statisticians, however, remains an open question.

A large amount of contraband still comes into Latvia, thereby depriving state coffers of significant sums in custom duties. The Ministry of Agriculture has estimated that during the first half of 1995 as many as 82 million eggs were illegally brought into Latvia, while the official total reported was only 1.4 million eggs imported. Estimates on the amount of contraband sugar approach 18,000 tonnes, while 600 tonnes were imported legally. Estimated contraband of meat products during the first half of 1995 was approximately 14,000 tonnes with 2000 tonnes imported legally. Illegal imports of milk products (recalculating the import of milk products to milk) totaled 30 thousand tonnes, with only 2,500 tonnes of milk products declared as being imported officially.

The shadow economy in general and contraband in particular are issues that urgently need to be addressed. Progress in this realm is possible only if government agencies, mainly the police, customs, the State Revenue Service and the courts properly fulfill their duties. Not only do such levels of contraband serve as a disincentive to foreign investment, they have negative consequences on human development. As outlined above, such contraband and smuggling activity impacts negatively on revenue collected, thereby also affecting contributions to the social insurance fund. One example of this is how the low level of income received by the fund by early April 1996 has forced a planned increase in pensions to be postponed for two to three months.

Overall Living Standards

A rapid decline in living standards is common to all transition economies as state-imposed price controls are lifted and inflation soars. In short, a high inflation rate has a negative effect on living standards because of the resultant decline in relative domestic purchasing power. As real income falls, one must expend proportionately more money on essentials, leaving no funds for the purchase of consumer durables, not to mention savings. This was especially true in 1995, as inflation was closely linked to price increases for household services, heat, telecommunications and transportation.

Since the summer of 1993 wages have increased faster than the rate of inflation (see Figure 3.1). The increase in the average wage index at the end of the year is due to the payment of annual bonuses. Cyclical fluctuations of this type are characteristic not only of Latvia, but of other countries as well. In order to exclude seasonal fluctuations, average indicators (for prices, wages, pensions) have been used. The average price level increased by 23 percent in 1995. At the same time the average wage in state and budget financed institutions increased from 77 lats to 98 lats per month, i.e. by 27 percent. At the same time, the average pension increased from almost 25 lats to slightly more than 30 lats, i.e. by 22 percent. This means that in 1995 the standard of living rose only for the employed and only slightly, approximately 4 percent, and for pensioners it decreased by 1 percent. Given Latvia's demographic structure, the decrease struck a significant portion of the population.

While inflation has the most direct effect on living standards, there are other factors which indirectly affect people's livelihood. Many people have simply been unable to adapt to work and life in the transition to a new economic system based on private property and individual initiative. A lack of personal responsibility, including responsibility for one's dependents, has contributed to the number of people who do not appear on official records. One example is unregistered children, whose parents do not receive the child benefit to which they are entitled. That the children go unregistered partially indicates that the par-

Box 3.1

The Minimum Wage in Latvia

In February 1996, the government decided to increase the minimum wage from 28 lats to 38 lats per month starting 1 April 1996, even though the requisite 24.6 million lats were not set aside in the 1996 state budget. This is the first time that the minimum wage in Latvia has been raised since 1 October 1994.

An increase in the minimum wage has both positive and negative aspects. The minimum monthly wage must be in line with other economic indices, such as average economic costs and average earnings; otherwise, a rise in the minimum wage may lack economic justification, and low-skilled labour could end up being overvalued. In Latvia, however, not increasing the minimum wage has effectively left low-skilled labour undervalued, allowing entrepreneurs to keep costs artificially low (especially where wages make up a large part of costs) and thus, to keep prices down. Many enterprises which have not been restructured pay the minimum wage to a large part of their employees, and a rapid increase in the minimum wage could lead to many bankruptcies. What effect the increase in the minimum wage from 28 lats to 38 lats will have on these enterprises - and especially on their employees who might face unemployment - is still unclear.

From the employees' perspective, however, no adjustment of the minimum wage for more than a year has directly affected the living standards of many low-income workers for whom meeting basic subsistence needs has become painfully more difficult in an inflationary economy. In addition, not increasing the minimum wage also negatively impacts on the state budget. In many businesses, employees receive the minimum wage officially and the rest of their pay, which is not reported, in an envelope. Thus, according to data from the Central Statistical Bureau of Latvia, employees in private enterprises receive less than those working in state enterprises. The reason for this paradox is that private enterprises do indeed pay more, but report less. Consequently, large sums of revenue bypass state coffers and the budget suffers, as do those often hit by declining social expenditures: pensioners and other vulnerable groups, as well as the entire social sector.

ents are not aware of their rights and opportunities that may allow an improvement in living standards. As a step towards addressing this particular problem Riga City Council recently decided to establish a centre for the protection of children's rights. The centre's main task is to be the registration of vulnerable children.

The lack of accumulated savings from before the restoration of independence and the large share of pensioners (approximately 25 percent of the population) in Latvia are objective difficulties hindering human development, because a large part of GDP must be redistributed to pensioners through the social budget. The only way to reduce the proportion of pensioners to the employed in the near term is to raise the retirement age.

In order to gain a more complete picture of living standards, the Central Statistical Bureau (CSB) of Latvia conducts regular household surveys. In 1994 the average income of households surveyed was less than the official crisis subsistence minimum (see Figure 3.2). According to data from the first half of 1995, living standards have risen, but only a little. Curiously, according to official statistics, the average wage of employees in state and municipal enterprises is higher than the average wage in the economy as a whole.

Average monetary incomes in the first half of 1995 compared to the first half of 1994 increased by 31 percent. Taking into account inflation, household purchasing power increased by approximately 8 percent. As a result the structure of household consumption evidences small,

but positive changes. The proportion of expenditures has slightly decreased for groceries and services and increased for non-food items.

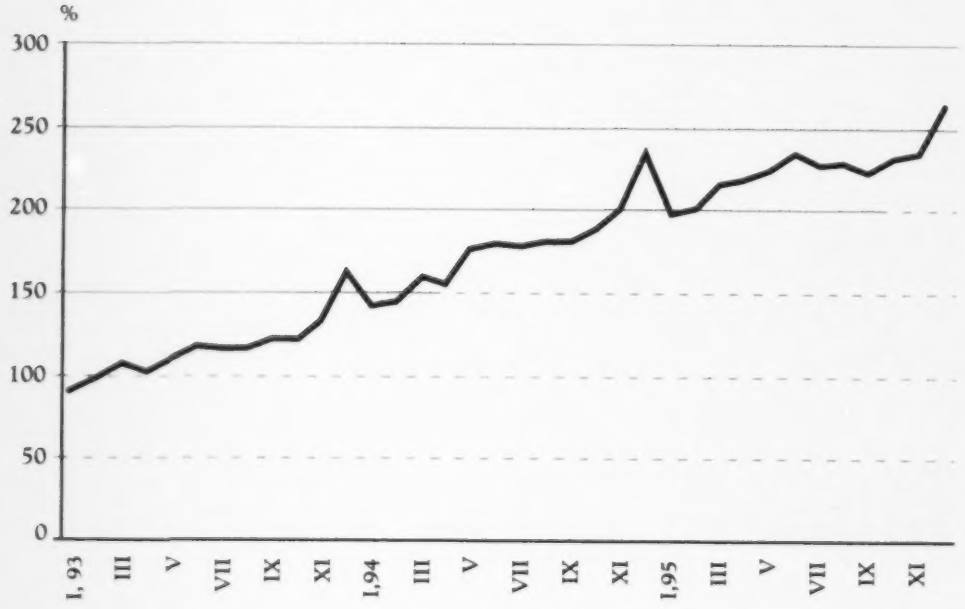
The general picture which emerges allows for a projection of slightly increased economic activity, which will gradually manifest itself in an increased rate of GDP growth reaching 5 percent by the year 2000. Presuming that annual inflation will not exceed 15 to 18 percent, real income per household member could increase by 3 to 4 percent in 1996.

According to the results of a survey conducted by the CSB in the second quarter of 1995, 59.8 percent of all households barely managed to balance their household budget (58.9 percent in the second quarter of 1994), 15.3 percent of households are in debt (12.6 percent for 1994) and only 10.9 percent claimed that they lived without worry (12.2 percent for 1994). Many professions have wages that leave people struggling to make ends meet (see Box 3.1). The lowest wages for various state and municipal jobs in the third quarter of 1995 were in the sectors of art and sports (Ls 65.90), health and social care (Ls 69.96), and education (Ls 70.50). The lowest wages in the whole economy (including the private sector) in the third quarter of 1995 were in hotel and catering services (Ls 64.52), art and sports (Ls 65.78), wholesale and retail, automobile and motorcycle, personal property and household item repair work (Ls 67.90). The best paid jobs were in the sectors of water and air transportation and finance.

Since April 1992, the CSB has regularly calculated the subsistence minimum. The Ministry of Welfare produces alternative calculations — the crisis subsistence minimum, which includes a smaller basket of goods and services (excluding household durables). Trends for both subsistence minimums can be seen in Figure 3.2. Al-

Figure 3.1

Inflation and the Average Wage Index, 1993-1995

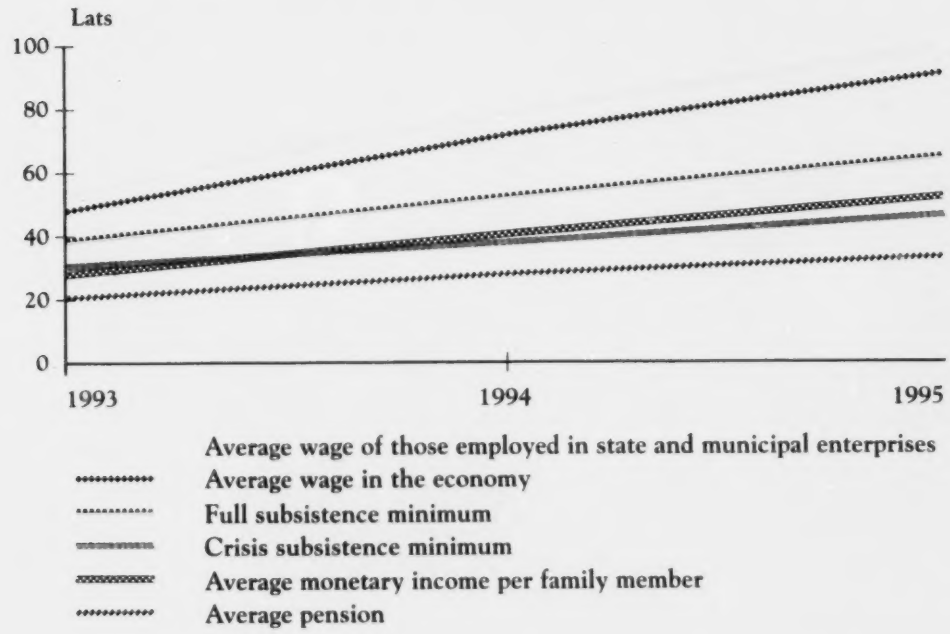


CPI as compared to December 1992

Average wage index for those employed in state and municipal organizations as compared to December 1992

Figure 3.2

Incomes, Pensions, and the Subsistence Minimum, 1993-1995



ternative calculations for the subsistence minimum are also produced by the Association of Free Trade Unions, which calculated the crisis subsistence minimum in February 1995 to be Ls 54.44. The subsistence minimum for an individual was calculated to be Ls 88.84, for a working person — Ls 93.72, and for a pensioner — Ls 71. According to the Unions, an individual requires an average of 31 lats a month to buy food, 17 lats for non-food items, and approximately 40 lats for utilities.

Policy Responses

Continued Economic Reform

As indicated at the outset, despite the banking crisis and the attendant financial crisis, Latvia has made significant economic progress since the restoration of independence. This is due largely to continued economic reforms and fiscal and monetary discipline. In broad terms, by continuing this reform, inflation should fall and growth should increase.

In order to address the disturbing economic trends of 1995 described above — the banking crisis and subsequent loss of confidence, the rising budget deficit, slow privatization — Latvia has embarked on additional policy reforms.

In an effort to re-establish order within the banking system, the Bank of Latvia has made efforts to tighten its regulation of banks, intervening at earlier stages when problems do occur. A direct result of the stern measures has been a reduction in the number of banks overall, and a limiting of the number of banks allowed to accept individual deposits. At the beginning of 1995, there were 55 commercial banks in Latvia. By mid-April 1996 there were only some 35 left, of which only 12 are permitted to accept individual deposits. By 1 April 1996, all commercial banks were to have accrued a minimum equity capital of one million lats. Four banks failed to meet this

requirement and their activities were subsequently suspended by the Bank of Latvia.

Having weathered the storm of the 1995 banking crisis, the government's top economic policy priority has become reducing the size of the budget deficit. As noted earlier, the 1996 state budget anticipates reducing the growth of the budget deficit, which stood at 92 million lats in 1995, to approximately 59 million lats in 1996. While discussions regarding the 1997 budget have only begun, the government's aim is to work out a realistic plan to balance the budget by the end of 1997. To approve a balanced budget, however, is only half the battle. The true challenge lies in **achieving** a balanced budget.

Clearly, revenue collection must improve in order to achieve any sustainable deficit reduction at all. In addition, in January 1996 the IMF suggested that another potential measure to reduce the budget deficit would be increasing the excise tax from four to ten santimes per litre of gasoline and from two to six santimes per litre of diesel fuel. Such a bill is currently being considered by Parliament. Admittedly, an increase in the excise tax could have a number of negative consequences, such as inflation, further tax evasion and even greater socio-economic inequality. Although the excise tax on gasoline and diesel fuel in Latvia is significantly lower than in European Union countries, several political forces have opposed the increase, arguing that tax collection should be improved first.

The government hopes to free privatization from the stranglehold of bureaucracy and accelerate the pace of privatization and foreign investment in 1996. The government took a critical step to that end in early April 1996, passing amendments to the Law on Foreign Investors which will eliminate discriminatory regulations against foreign investors and put them on an equal footing with local investors. An acceleration of privatization will invariably result in increased unemployment, assuming employee retention requirements are relaxed. However, given the anticipated positive impact on growth and investment of rapid and successful future privatization, the need to move forward with the privatization process is undeniable. The ability to allocate increased budgetary resources to human development priorities such as investment in health care and education reform is dependent on economic growth which accelerated privatization should help to stimulate.

Social Welfare Reform

In 1995, government policy in the realm of social assistance and poverty reduction consisted of social payments in the form of pensions, welfare support, one-time targeted municipal social assistance, and various services. However, the budget deficit, as well as internal and external debt may negatively impact the state's ability to ensure social payments in the near future. At present approximately 28 percent of GDP is redistributed through the social security system (excluding indirect support, such as support for the impoverished and housing allowances). As in other Central and East European countries, approximately 50 percent of all social payments from the national government and municipalities in Latvia are paid in pensions, 18 percent in health care and 13 percent in social assistance. The latter figure reflects the acute problem that pensions and unemployment benefits are meagre and are supplemented through assistance payments.

In 1995, funding allotted to social security totaled 8.4 million lats and municipalities paid out over 12 million lats in social support to approximately 625,000 persons. With the adoption of comprehensive social security legislation in 1995, the Parliament and government made the creation of a financially strong and independent social security system a high priority. The aim is to reorganize the social protection and health care sectors and include them in a unified system, to involve non-governmental organizations in solving social problems, and to strengthen cooperation between local authorities, local employers, employment services and others involved in social work.

The package of social welfare legislation passed in 1995 includes seven laws on:

- Social Security;
- The Social Tax;

Box 3.2

Pension Reform in Latvia

Number of pensioners in Latvia in 1996:	654,000
Pensioners as a percentage of the total population:	25%
Dependency ratio of pensioners to taxpayers:	87%

Following the collapse of the Soviet system, currency reform, inflation and other changes during the transition wiped out any savings that individuals may have held in local currency and destroyed the pension funds of the state. As a result, pensions, and thus, the survival of pensioners, are completely dependent on payments made by taxpayers. As can be seen from the dependency ratio, this translates into virtually each taxpayer supporting one pensioner.

In an attempt to ameliorate the situation, Latvia undertook a far-reaching pension reform in 1995. The reform will gradually replace the "pay as you go" system with a new three-tier system:

- The first tier will provide modest state pensions, the level of which would be partially determined by contributions, but will include a minimum government-provided pension.
- The second tier will be a fully funded mandatory contribution scheme.
- The third tier will consist of voluntary private pension arrangements for those who wish and are able to afford a higher level of old-age and disability protection.

The first tier has already been introduced and all social tax payments made by employers are credited to individual accounts, where interest is accrued in line with the average growth of wages. Upon retirement, annual pensions will be paid according to the accumulated balance divided by the average post-retirement life-expectancy. Benefits will be indexed in line with price growth. The second tier is not expected before 1998, as capital markets are not yet sufficiently developed for investment of the funds.

Additionally, the minimum pension age for women will be raised from 55 to 56 in 1996 and by half a year in each calendar year until it reaches 60. This will have a beneficial effect, as the rate of growth of the numbers of pensioners slows and both income and social taxes continue to be paid.

Pension reform is the guarantee of protection from want in old age, which is an essential component of human security. While investing in the future, it is critical to ensure the basic needs of today's pensioners, which can only be done by increasing economic growth, improving tax collection, and allocating the requisite funds for pensions.

- State Pensions;
- Mandatory Social Insurance for Unemployment;
- Insurance For Work-Related Accidents and Illnesses;
- Illness and Maternity Support;
- Social Assistance.

Since January 1995, the social insurance budget has had special budget status. The development of the social security system is being planned within the parameters of the current social tax rate (38 percent).

The Law on the Social Tax passed in 1995 and amended in 1996 provides for a gradual increase of the employee's portion of the social tax payment and a reduction in the employer's portion. While employers currently pay 37 percent of the social tax and employees one percent, by 1 July 1996 these payments will change to 33

percent for employers and five percent for employees, respectively.

The social tax rate will gradually be reduced starting in 1997. However, the employee's contribution will increase to 15 percent by 2001, and the employer will then pay 18 percent of the social tax. The Sixth Saeima amended the law so that for persons working in agriculture, 22 percent of the social tax rate will be paid by the employer, five percent by the employee and 15 percent by the state budget as of 1 January 1996. Until now farmers paid the same social tax as others — 37 percent was paid by the employer and one percent by the employee. Farmers who are employers will pay 18 percent of the social tax rate as of 1 July 1996, the employee will pay five percent and 15 percent will be paid by the state budget.

The largest proportion of the social insurance budget goes towards pension payments, which constitute 86.4 percent of social budget expenditures. At present, the working population provides for pension payments. The new Law on State Pensions which went into force in January 1996 provides for mandatory individual social insurance payments. The size of old age pensions will depend on the social insurance payments made during a person's working life (see Box 3.2).

As noted, budgetary constraints have not permitted increasing pensions to where they should be, but increases have taken place twice between 15 September 1994 and 1 August 1995. As a result of adjustments, the average pension increased over this period by Ls 5.50 or 20.3 percent. As a result of pension indexation, the difference between the minimum and maximum pension at the beginning of 1995 was Ls 9.24. After the 38 year working time requirement was rescinded for calculating pensions, the difference between the minimum and maximum pension was Ls 12 as of July 1995.

In 1995, jobs were found for 19,000 unemployed with the help of the State Employment Service (see ***Latvia Human Development Report 1995***). The second most important active employment policy measure is raising one's professional skills or acquiring a new profession. Training and retraining the unemployed is one of the most effective ways to combat unemployment, improve job security and meet the economic demand for a skilled work force. In 1995 6,300 unemployed persons were sent to training or re-training programmes. Of the persons who completed the training (5,000), 1700 have been placed in new jobs. The expansion of training programmes is hindered by the lack of a strategic programme for regional economic development.

Unemployment support has been extended from 6 months to a maximum of 9 months and the amount of support has also been increased, depending on average earnings for the past 6 months and the time period one has worked. The new social insurance law for unemployment provides for a higher level of compensation in comparison to the previous law, under which compensation was 90 percent of the minimum wage. Those participating in professional training or retraining courses and public works projects also receive support. Unemployment support was received by 27,000 persons or 32 percent of all unemployed in November 1995. The average support payment was 22.55 lats.

As a result of the financial crisis in 1995, the government was forced to make unpopular decisions, such as forcing patients to pay part of basic health care service payments, which significantly affected the availability of health care for poorer residents. As a result, the number of people treated in outpatient clinics fell drastically and the need for complex, specialized care for untreated ailments increased along with the need for urgent medical assistance. The operation of an effective and accessible health care system is crucial for the improvement of living standards and, as noted, for facilitating human development. During the pre-election period for the Sixth Saeima, most political parties claimed that introducing health insurance was an important objective. Currently, the Ministry of Welfare is preparing a plan for obligatory state insurance. The financing arrangements will be crucial to the success of health care reform, as will improving the administrative structure and training of qualified specialists. Though the fruits of social welfare reform will not be felt in the near future, the comprehensive reform effort undertaken has laid the foundation for an improvement in living standards in the longer term.

Recommendations for Facilitating Growth and Promoting Human Development

The common root of many of Latvia's most pressing economic problems is the role of the state in the economy and the effectiveness with which it fulfills that role. While the proportion of the economy in private hands has increased, the state retains ownership of a large share of the economy, the maintenance of which requires the financial and human resources of the government.

The state has become a financial intermediary between banks and other investors, borrowing money at high interest rates and dispensing it to state enterprises, in essence providing them with enormous subsidies which effectively serve as a disincentive for restructuring. The subsidies appear to do little economic good, as debts of these state enterprises continue to increase. Complex tax legislation and poor tax administration have exacerbated the problem. In an attempt to cut costs, many state and private enterprises simply refuse to pay taxes. Social tax debts alone at the beginning of 1996 totaled more than 90 million lats and the main debtors were state enterprises. Thus, the state ends up using its already limited resources to subsidize production which, in turn, generates little or no taxable income.

One obvious solution to the asset management problem is to reduce the amount of assets the government must manage with its own resources. Yet the state has so far been unable to create the conditions necessary for a swift privatization of state assets. The government drains domestic credit resources to finance the deficit, making credit too expensive for domestic investors and thus inhibiting business development. For a variety of reasons, foreign investors have shown relatively little interest in Latvian enterprises and so keep badly needed investment capital from flowing into the country.

The key to improving the situation would appear to be to find the most effective means to focus the state's role in the management of the country's economic resources in areas where it is absolutely necessary, while at the same time enhancing the government's ability to perform those functions for which it has a clear obligation, such as revenue collection and provision of social assistance.

Short-term solutions for the aforementioned problems involve restructuring the financial system. In order to increase the amount of resources which can be dedicated to productive economic activity, annual revenues and expenditures must be balanced and a budget deficit greater than 2 to 3 percent of GDP (in current prices) is ill-advised. While deficit reduction targets have been met in the first quarter of 1996, the internal debt to service the budget deficit continues to grow.

A deficit should be permitted only for funding a limited number of long-term projects within the state investment programme and for those critical human development priorities that most broadly impact on social welfare and improve social inequalities. A core condition for the former is that these projects must earn or create the basis for earning a profit, while the latter form of investment in human development priorities should be done only in combination with a rationalization of public expenditures in these areas.

Changes must be implemented gradually, as macroeconomic stability could be compromised by rapid changes in the structure of financing the budget deficit (the government would need to convert large sums of foreign currency to lats, thereby increasing demand for the lat and perhaps facilitating a revaluation of the lat exchange rate).

The structure of financing the budget deficit must gradually change through loans on the international financial market. Domestic bank credit resources spent for investment will be freed and encourage a further decrease in interest rates. In the 1996 state budget law, the government projected economic growth of 2 to 3 percent and inflation of 17 to 18 percent. However, the planned state budget deficit prevents the attainment of these goals. Only 2 percent of total budget expenditures has been planned for investment. Thus, any growth will have to come from the private sector. If the budget deficit is very large, it will choke the private sector by pushing up interest rates. According to IMF calculations, slight growth in the private sector would be possible if the budget deficit were not the 59.39 mil-

lion lats as stated in the law, but 40 million lats. If the budget deficit were smaller, the expense of servicing government debt would decline, as would the amount of principal to be repaid.

From a human development perspective, **improved revenue collection remains a top public priority** in order to generate the resources required for the implementation of social welfare reform and addressing other human development priorities.

The banking crisis has intensified the debate over whether the government should insure individual deposits. Some observers doubt the wisdom of government insured deposits, arguing instead that appropriately regulated private companies could fulfill this function. Such a proposal would certainly increase the responsibility of depositors. However, insurance companies are currently not in a position to insure individual deposits because the basic capital of banks is much larger than that of insurance companies. A government deposit insurance scheme, on the other hand, could have an additional benefit aside from providing basic security for individual depositors. By insuring individual deposits (and having the financial means to fulfill its promise), the government would be declaring its accountability to the public for proper and sufficient regulation of the banking system. This, in turn, could enhance public trust in government and contribute to bridging the deep divide between the public and private spheres of society described in Chapter 2.

Stricter control is needed to limit cash transactions, requiring greater reliance on credit institutions (the banking system). As the population's trust in the banking system grows, wages could be paid through the banking system, thereby encouraging precise records of income and tax payments. A table of price and tariff changes needs to be prepared for government and municipal control purposes to prevent rapid price or tariff changes from promoting inflation. Tax administration must be streamlined and unified to improve records of taxpayers and oversight of payments. At the same time, the law should provide for larger penalties against tax evasion.

In the longer term, it is necessary to carry out the privatization of large enterprises simultaneously with a restructuring of the financial system, to speed up the emergence of the real estate market and to promote transit business development as one of the most realistic spheres for economic development over the next two to three years. At the same time, legislative amendments are necessary to attract direct foreign investment and to eliminate bureaucratic procedures for foreign companies wishing to purchase not only buildings, but the land beneath them as well. Efforts should be made to increase the number of countries with which Latvia has signed agreements for the protection and promotion of bilateral investments. Discriminatory visa regulations allowing foreigners to remain in Latvia for only three months in a year should be lifted.

Legislative changes are necessary to create the opportunity for enterprises to sell debts on the financial market, capitalize them, and write them off under specific conditions (for instance, immediate privatization). Laws governing insolvency and bankruptcy must be amended to provide for mandatory announcement of insolvency if an enterprise fails to fulfill its obligations. Announcing insolvency of an enterprise is a mechanism to ensure business restructuring. Initially, provisions could be made to apply this step if an enterprise has not fulfilled its obligations for a year, for example. Later, this time period could be gradually reduced. A legislative provision is necessary imposing criminal liability on management if an enterprise fails to announce insolvency when it should.

Regional development and employment programmes need to be developed immediately, with provisions for attracting investment and cheap loans to promote business. Consideration needs to be given to amending the state investment programme to include a special subprogramme "Investment in Latgale," focusing on the development of infrastructure in that region. More complex mechanisms for addressing regional inequalities should also be assessed, such as tax benefits in Latgale or so-called tax regionalization (see also Chapter 2 on **Human Development During the Transition — The Latvian Context**).

While the current size of Latvia's external debt poses no serious problem, any future external borrowing in the near term should be only

for investments intended to jump-start development. Funds should be allocated within state investment programmes for the development of the social infrastructure. Improved roads, railways etc. could be the basis for business development and higher living standards in the future. State investments should also be used to promote cost-effective reform in the health care and education systems.

An effective, rational and client-oriented social security network must be established which can provide any population group the opportunity to benefit from all measures of social protection. The scope of insurance systems must be expanded by increasing the role of voluntary insurance (pension, health) in providing risk protection for society as a whole. The creation of non-state (private or municipal) pension funds could increase the range of services available to the population and the funds amassed could be invested in economic development. From the very beginning, however, strict government regulatory oversight of private pension funds is necessary. Current procedures for granting family support should be reviewed so that support is granted only to those families with lower than average incomes.

Legislation defines the status of a needy person as one whose monthly income does not exceed 75 percent of the crisis subsistence minimum. However, employing this definition, most pensioners are not considered "needy," though it is clear that pension levels are insufficient to pay for the most basic needs. Therefore it is necessary to re-examine the methods used to calculate the crisis subsistence minimum in order to better estimate the number of people who truly should be considered needy. Similarly, consideration should be given to differentiation of pensions and other social payments to account for significant variations in costs of living between urban and rural areas.

A new method of evaluating household budgets is needed to objectively determine the need for certain social guarantees and to use state and municipal funds more efficiently. The current economic situation does not allow the state to increase social payments, therefore available options include differentiating payments based on the cost of living in specific cities or regions and setting priorities with special attention to child support and stipends.

Gaps and deficiencies in current social security legislation should be eliminated and the social tax collection mechanism must be refined. As in the economic realm, Latvian social security legislation must be adjusted to comply with European Union legislation and standards as quickly as possible, thereby promoting successful integration into the EU.

There is a need to begin formulating a national poverty reduction strategy. Before this strategy can be developed, base-line data must be collected for an accurate assessment of the nature and degree of poverty in Latvia. Such data is expected soon in the form of the first reoriented household budget survey conducted by the CSB. The strategy developed thereupon must include a number of measures, of which the simplest is ensuring social payments. However, for the strategy to be truly successful it must reach people whose fate lies beyond the successful implementation of social welfare reforms. In the longer term, the basis for poverty reduction is economic growth, employment and education.

As a recent UNICEF Innocenti study stated, the availability of considerable human resources throughout the region is one of the factors which could raise many people out of poverty in the coming years. Clearly, then, the level of education, especially economic education, will strongly influence the future of the Latvian economy and the welfare of the people. This confirms the need for a more detailed analysis of education reform, to which the Report now turns.

Chapter **4**

Education Reform

Introduction

Education creates the capacity for people to live a complete and productive life. If people are educated, they can earn the resources necessary for a decent standard of living and participate more fully in the development process — initiating, planning, leading and implementing reforms. The education system can not only create the opportunity for enhanced human development at the individual level, it can also promote broader social integration by instilling a common set of values among diverse groups in society.

As Latvia has had high levels of educational attainment since the end of the nineteenth century, the public has viewed education as one of the most significant indicators of social progress. Moreover, Latvia's limited endowment of natural and energy resources suggest that the country's future international competitiveness will depend heavily on a highly educated and professionally qualified work force. Given the ethnic and linguistic diversity of Latvia's population, the role of the education system as a vehicle for integration is particularly important.

The challenge faced by reformers in the realm of education, as in other areas, is promoting change through enhanced participation rather than increased state intervention. This challenge is all the more daunting insofar as budgetary resources are limited and measures that would increase efficiency entail difficult trade-offs. But significant progress has been made since the restoration of independence, and future reforms can build on existing efforts and innovations. To gauge the nature of the task still ahead, it is necessary to examine the inheritance of Soviet rule and recent changes in the education system.

What sort of education system did Latvia inherit from Soviet rule? The education system of the Latvian Soviet Socialist Republic was an integral part of the unified Soviet system centrally controlled by Moscow. However, the particulars of this system were shaped and implemented in Latvia. There was and remains high attainment in fields such as mathematics, chemistry, and computer science. At the same time, subjects such as history, social studies and foreign languages were extremely politicized. Courses such as the history of the Communist Party, Marxist-Leninist philosophy, Marxist political economy, and scientific communism were mandatory in institutions of higher education. Teaching methods were also centrally mandated — all school teachers had to teach according to a prescribed syllabus and each subject had one officially approved textbook. Such an approach was taken throughout the system, even in institutions of higher education, where the curricula were prepared and approved in Moscow.

Many changes have occurred in the Latvian education system since 1989. Yet, these changes do not constitute "reform," if "reform" is understood to be a goal-oriented, joint effort on the part of educators and the population to reach new, commonly understood and accepted objectives. First of all, the changes which have taken place have been dictated by the intuition and common sense of individual education administrators, not a goal-oriented national programme. As a consequence, good intentions have not produced the intended results.

Secondly, inadequate attention has been devoted to the development of a reform programme: systematic work in preparing education reform guidelines was begun only in 1993. Delays have been caused by the fast pace of political and economic changes and the inadequate professional qualifications of education administrators and specialists (not just instructors in education institutions).

Thirdly, the original formulations of the objectives of change were purely declarative, and have thus lost some of their meaning today. The significance of education reform has often not been explained, and there has been a lack of consensus on the part of educators in working towards a common goal. During the struggle for independence, everything associated with the Soviet period was rejected. Now the realization is slowly dawning that rejecting the past is easy, while analysis and independent decision-making are much more difficult.

One of the most urgent problems facing reformers is the language of instruction in Latvia's schools. For fifty years, two parallel school subsystems — Latvian and Russian — existed side by side. The renewed use of Latvian, the state language, in the education system is a crucial factor in Latvia's future development as a state. Changing the language of instruction for thousands of students in a short period of time is not feasible. Such a change requires an extended period of time, systematic work, and funding.

An equally important problem is that of the teaching process and its content. As suggested in Chapters 2 and 3 above, changing economic reality and the declining role of the state will require of young people ever greater personal initiative, independence, and responsibility. However, the Soviet school system did not seek to inculcate such qualities. Since 1992, the strict regimentation of subject matter and teaching has gradually given way to more autonomy, with each school defining its own goals. Within guidelines established by the state, schools may vary their curriculum and choose their own teaching methods. Several textbook publishing companies have been established, and teachers are no longer required to use the same textbook.

Unfortunately, too few teachers are prepared to work creatively and experiment. Thus, the imperative of raising the professional qualifications of teachers is particularly urgent. Due to the difficult economic situation teachers' salaries do not reflect the importance of their work. As a result, many teachers have been forced to leave teaching to seek employment in the private sector in order to support their families.

Like any restructuring, education reform requires investments. The relatively high percentage of the gross domestic product (GDP) and the state budget devoted to education bear witness to the government's recognition of the importance of education. However, it must be noted that GDP, manufacturing output, and the size of the state budget have all decreased by almost a half since the 1980s, while prices have grown several-fold. As a result, the absolute level of financing for education in 1995 approached the survival threshold, and one cannot talk of any serious investment in education development. In addition to rationalizing all public expenditures for education, it would appear that long-term external credit financing for the implementation of education reform should be seriously considered. Of course, any decision to increase existing foreign debt is difficult, but a serious, long-term human development strategy is impossible without a serious, long-term education reform programme with adequate funding.

A Profile of the Education System

The Legal Basis for the Education System and Reform Efforts

Changes in Latvia's education system began in the late 1980s, and the first accomplishment was the elimination of Soviet military training from the curricula of schools and institutions of higher education. In June 1991, two months before the restoration of independence, a new Law on Education was adopted. The law called for equal rights to education for all inhabitants of Latvia, gave schools freedom in organizing the teaching process, and granted autonomy to institutions of higher education. An amended version of this law is still in effect today, but it is no longer capable of serving as the basis for reform of the education system.

In 1993, work began on drafting a new law on education, with special attention to restructuring the system according to international standards and Latvia's treaty obligations. The emerging Education Conception and draft legislation

Box 4.1

Political Declarations Regarding Education

In autumn 1994, a change in governments took place. The new government issued a programmatic declaration, in which the most significant principles with respect to education were:

- ensuring the coordination of different types and stages of education to form a unified system of life-long education;
- giving priority to developing the system of teacher education and raising the social status of teachers;
- separating basic (primary and lower secondary) and middle schools (upper secondary);
- ethnic minority schools shifting to instruction in Latvian;
- a gradual introduction of tuition fees and student loans in institutions of higher education.

A new government took office in December 1995 after the Parliamentary elections, and a new Cabinet declaration containing the following priorities was issued:

- instruction in state-financed institutions of higher education is to be in the state language and a gradual transition to instruction in Latvian is to take place in upper secondary schools; the state will also support ethnic minority basic schools where some subjects are taught in the minority language and some in the state language;
- each education institution may design its own curriculum, taking state guidelines into account;
- the development of a network of rural schools and the renewal of small elementary schools to meet the needs of local inhabitants; assistance from both national and local governments to facilitate access to education for children in rural areas;
- the development of a system of adult education geared to demand in the labour market;
- the gradual transition to a system of tuition fees and student loans in institutions of higher education.

were debated at the Educators' Congress in March 1994. In summer 1995, the Cabinet of Ministers approved the Education Conception and at year's end submitted to parliament the new draft law, which is proposed to be the core legislation underlying the education system (see also Box 4.1). In line with the draft law, two other laws regarding education have already been passed: the "Law on the Riga School of Economics" and the "Law on Institutions of Higher Education."

Financing Education and Reform

The structure of schools in Latvia is as follows: basic school consists of primary school (classes 1-5) and lower secondary school (classes 6-9), and upper secondary school is commonly known as middle school (classes 10-12). Institutions of education are financed by: (1) the state budget; (2) municipal budgets; (3) individual and company funds; and (4) international support for

certain institutions and/or projects. The state budget finances:

- vocational schools operating under the auspices of the ministries;
- upper secondary professional education institutions;
- salaries and social taxes for employees of municipal general education institutions (pre-school facilities, general education schools, boarding schools, sanitariums — boarding schools, special education boarding schools, evening schools, out of school educational institutions) and municipal vocational schools;
- institutions of higher education founded by the state;
- maintenance costs for municipal special pre-school institutions, boarding schools, sanitarium-boarding schools and special education boarding schools which are designated for children with physical or mental disabilities;
- within the realm of possibility, subsidies to accredited private institutions.

In 1990 expenditures for education (including higher education and science) comprised 2.5 percent of gross domestic product (GDP) (in actual prices); in 1993 it was 4.1 percent, in 1994 — 4.3 percent, and in 1995 — 6.3 percent (see Table 4.1 and Figure 4.1). In Western Europe the proportion of GDP spent on education does not usually fall below 6 percent. As suggested in the analysis of the budget in Chapter 2, the problem lies not so much in the percentage of the budget Latvia expends on education, but in the small absolute size of that budget. In 1995 total planned state budget expenditures and planned municipal expenditures for education comprised about 154 million lats, of which 104 million came from the state budget and 50 million from the municipalities. Education expenditures comprised almost 20 percent of state budget expenditures in 1995.

The budget crisis in 1995 prevented planned expenditures from being fully allocated, and education received only 93 percent of budgeted funds.

Funding from the state budget for education is divided into basic expenditures and investment expenditures. Basic expenditures are designated for the costs of maintaining institutions, paying salaries to teachers and employees of state-funded institutions, subsidizing the cost of transportation for schoolchildren and students, paying utilities and other running expenses. Developmental expenditures are designated for changes and improvements in the education system.

In 1995, 97 percent of allotted state budget

Table 4.1

Estimated Expenditures for Education in 1995 Based on Results from the 1st Two Quarters of 1995 (Lats)

	Expenditures (Thous. Lats)	% of GDP	% of All Education Expenditures
Total Expenditures	153,436	6.3	100.0
Pre-School Education	13,805		9.0
General Primary and Secondary Education	95,400		62.3
Professional and Vocational Education	11,866		7.7
Higher Education	20,732		13.5
Supplementary Education	5,136		3.3
Science	6,497	0.3	4.2

funds for education were spent on basic expenditures. This distribution of funds, forming a 9:1 ratio between basic and investment expenditures, does not promote the advancement of education. For successful human development, basic and investment expenditures must be at least equivalent, as human development requires investment of resources directly into changing and improving the system. The state investment programme projects investments in education in the amount of 13.5 million lats for 1995-97, two thirds of which is to be provided by the state budget. The amount to be invested in education and science comprises 12 percent of total budget resources designated for investments over this period.

Teachers' Salaries

Approximately 50 percent of total state budget expenditures for education are utilized to pay the salaries and social taxes of teachers at preschool education institutions and in general education schools. According to Central Statistical Bureau data, the average salary of educators has risen from 46.08 lats in August 1994 to 65.91 lats in August 1995, in other words by 43 percent. At the same time, average salaries in state funded institutions as a whole increased by 37 percent (inflation during this period was 22.7 percent). Still, the economic circumstances of teachers remain unsatisfactory and a strike took place in December 1994.

In order to retain more experienced teachers and to provide them with incentives to continue their education, the system for calculating salaries was reorganized in 1995 (see Table 4.2). A new teacher with the minimum required education working a full teaching load (21 hours of instruction per week) receives not less than 39 lats per month, whereas the minimum salary for an experienced teacher with a higher education is 1.6 times greater. Furthermore, each school's administration can use 10 percent of funds budgeted for salaries to pay bonuses, which may account for 20-30 percent or more of the best teachers' base salaries. In October 1995, the average salary for one teaching load (including bonuses) was 66.4 lats a month. In August 1995 the average salary for those employed in the economy was 89.5 lats a month, while those working in state or municipal institutions earned an average of 76.5 lats.

A typical salary for an experienced teacher working 1.3 teaching loads (27 hours of instruction per week) in October 1995 was 80-90 lats a month. A teacher's actual earnings after taxes, even including over-time, barely exceed the subsistence minimum.

Figure 4.1

Estimated Expenditures for Education in 1995
Based on Results from the 1st Two Quarters of 1995

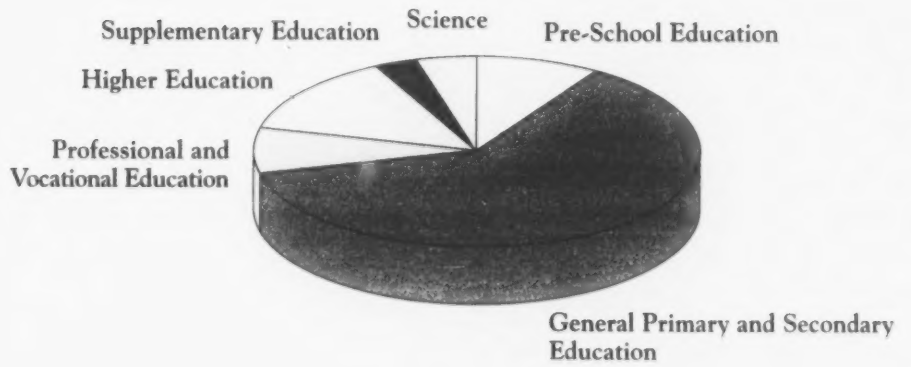


Table 4.2

Minimum Salaries for Teachers (in Lats) According to Education and Teaching Experience, 1995

Teacher's Education	Teaching Experience (Years)			
	< 2	2-5	5-10	> 10
Higher with Speciality in Education	50	53	57	62
Higher	50	53	57	62
Incomplete Higher or Secondary with Speciality in Education	42	44	46	49
General Secondary or Professional Secondary	39	39	39	41

The aforementioned numbers reflect the difficult economic situation in the country as a whole and the low social status of teachers. It must be noted that the salaries of those working in the private sector are much higher, which explains why many teachers are leaving their jobs in schools and opting for jobs in the private sector.

Pre-School Attendance

Significant changes have taken place in the organization and content of pre-school education since 1990. In comparison to the period preceding 1990, pre-school age children have fewer opportunities to acquire an education. While 83 percent of all children in the relevant age group attended pre-schools before 1990, now the corresponding figure is only 54 percent (see Table 4.3). However, this figure has increased since 1991, when it stood at only 27 percent. Equally alarming is the decline in the number of pre-schools. In 1989 there were 1,200 kindergartens; in 1991, 520 kindergartens; and in 1995, 608 kindergartens. Many pre-school facilities are now being utilized for purposes other than education (sold to businesses, etc.). Unfortunately, this process is still taking place, as municipalities lack adequate funds to renovate buildings and furnish them to accommodate pre-schools. Some pre-school facilities are being renewed, yet demand still far exceeds supply. Currently about 8,500 children are waiting to be admitted to pre-schools. The distribution of kindergartens in rural areas is unsatisfactory and some districts have no kindergartens at all.

Trends in Upper Secondary Education

The percentage of schoolchildren who decide to continue in general upper secondary schools after completing their basic education is increasing. In 1990 this percentage was 40 percent, in 1994 — 52.8 percent, and in 1995 — 55.4 percent. The share of those continuing in upper secondary professional schools after completing basic education was 40 percent in 1994, and 37.7 percent in 1995.

The overall percentage of schoolchildren continuing their education after basic school was 92.8 percent in 1994 and 93.1 percent in 1995. There has been a decline in the number of pupils who enroll in upper secondary schools but do not graduate from them. Of those students who enrolled in upper secondary schools in 1990, 36.8 percent did not graduate, but of those who en-

Box 4.2

The Teachers' Strike in Latvia

In June 1994, Latvia's educators gathered in the heart of Riga, in the Dom Square in the old town to protest the low level of teachers' salaries. They demanded that the average salary for teachers be increased to match the average salary of other workers in the state sector. They set the deadline for meeting this demand as the first day of the 1994-95 school year. The demand was not met, and a one day strike took place on 2 September 1994.

This did not resolve the problem of teachers' wages, and at the end of November 1994, the Council of the Union of Latvian Education and Science Employees declared a new, week-long strike to begin on 5 December 1994. No compromise was reached with the Cabinet of Ministers and the Ministry of Education and Science on the salary issue, and a strike of unlimited duration was declared on 12 December 1994. Soon thereafter, the Union came to an agreement with the government, and all teachers' salaries were to be raised as of 1 March 1995 in accordance with the reformed system of calculating wages. The agreement stipulated a total increase in funds for salaries of 16 percent. The strike was halted on 15 December 1994.

On 28 March 1995, after acquainting itself with the Cabinet of Ministers' regulations for paying educators, the Union concluded that the terms of the compromise did not satisfactorily meet its demands and called for the resignation of the Minister of Education and Science.

rolled in 1991 the percentage of non-graduates in 1994 had decreased to 22.8 percent, and decreased again the following year to 22.3 percent. Accordingly, the number of upper secondary school graduates in the corresponding age group (18 years of age) is increasing, from 34.4 percent in 1990 to 41.7 percent in 1994, and 42.2 percent in 1995.

The intensity and effectiveness of teachers' work can be gauged by the student-teacher ratio, which in Latvia is one of the lowest in Europe. To a great extent, this can be attributed to low population density and the large number of small schools in rural areas. The student-teacher ratio in rural elementary schools (grades 1 to 4) is 5.4:1, whereas the ratio in cities is 17.1:1. A strategy of sustainable human development requires paying particular attention to such discrepancies between rural and urban areas. Unfortunately, the question of transporting and housing children in larger boarding schools has not yet been solved. On the other hand, the school is often the only cultural centre in a district, and its elimination would only signal decline in such areas. Yet, given current conditions of austerity and the resulting imperative of increasing efficiency, it would appear that Latvia cannot afford to maintain such a low student-teacher ratio.

Higher Education

The number of students enrolled in institutions of higher education has increased rapidly. In 1995-96, 13,601 students enrolled, which is 34.5 percent more than in the preceding year, and is a record high for Latvia. 72 percent of all upper secondary school graduates from the 1994-95 academic year were accepted into institutions of higher education; 7 percent of all admission candidates have already acquired a higher education. Proportionally, the highest demand was in the fields of economics and law, which together accounted for 40 percent of all applicants. Of all those admitted, 21 percent are studying economics, 4.5 percent law, and 25 percent education.

Box 4.3

School-age Children Not Enrolled in Schools

An alarming trend in education is the falling percentage of children who have acquired a basic education. In 1990, 90.1 percent of all 15 year-olds had completed basic education, but in 1994 this percentage had fallen to 79.3 percent, and in 1995 to 76.7 percent. This does not, of course, mean that only 76.7 percent of children complete their basic education. Some school children repeat a year (see Table 4.3), so it can be expected that they will complete their education in subsequent years. According to data from the State Education Inspection Board, currently about 2,500 school-aged children are not enrolled in school (i.e. miss more than half or an entire school year). This does not reflect the real situation, as this includes only registered school-age children. Unfortunately there are also school-aged children in Latvia now who are not registered at all. Consequently, illiteracy is becoming a topical problem and may drastically hinder human development in the future.

One reason for the high percentage of people who have not acquired a basic education is that schools are not interested in accommodating those pupils who are older than 15 and are thus no longer considered to be of school-age. As a result, these children are discharged from school. This is suggested by the fact that the highest drop-out rate exists in the last years of basic school. 6.2 percent of pupils in the ninth grade dropped out in 1994-95; of those, 23.6 percent failed, 24.2 percent were over 15, and 52.2 percent left for other reasons.

The ratio of students per 10,000 inhabitants is 183 (in 1993-94 it was 146, and in 1994-95 it was 149). Despite problems in guaranteeing the required minimum education for all, the value placed by the public on education, especially general upper secondary and higher education, is increasing.

Languages of Instruction in Latvia

Two School Sub-Systems: Latvian and Russian

One of the greatest challenges facing reformers is bringing the system of education in line with the Law on Languages, which declares that the state language is Latvian. In order to fully comprehend the legacy of fifty years of Soviet rule, it is instructive to review the development of Latvia's two school sub-systems, each with its own language of instruction.

Immediately following the incorporation of Latvia into the Soviet Union in 1944, Russian language departments were established in institutions of higher education. In the autumn of 1945, all departments had sections with Russian as the language of instruction, and each school in which Russian children enrolled had classes with Russian as the language of instruction. Soviet immigrants settled mostly in cities, while rural regions remained largely untouched. Thus, Russian language schools were founded alongside Latvian language schools, and children in Russian schools were educated according to the Russian ten-year school programme.

To a large extent, Latvian schools lost autonomy, as Moscow established the entire curriculum. Latvians schools had an eleven-year programme, which was supposed to allow Latvian students sufficient time to learn Russian. Children in Latvian schools had Russian lessons four times a week for ten years, while children in schools with Russian as the language of instruc-

Table 4.3

Enrollment in the Education System, October 1995

	Number of Students	% of Relevant Age Group	Repeat Students	% of All Students Repeating
Pre-School Education	72,847	54.0	-	-
Basic Education	299,762	90.2	7,593	2.5
Grades 1- 4	139,925	91.6	3,733	2.7
Grades 5- 9	159,837	88.9	3,860	2.4
General Upper Secondary Education	37,898	38.4	32	0.09
Vocational Education	25,203	19.0	-	-
Upper Secondary Professional Education	17,174	12.9	-	-
Special Education	7,820			
Higher Education	45,828			
Master's Students*	3,818			
Doctoral Students	229			

* 1994-95 data

tion had Latvian lessons twice a week for nine years. A political climate that stressed the importance of Russian as a lingua franca in the Soviet Union contributed to the inadequate attention given to providing quality Latvian lessons in schools with Russian as the language of instruction. The curriculum was altered only in 1988-89, when the amount of Latvian language instruction in Russian schools was gradually increased.

Languages of Instruction

Upon the restoration of independence, Latvia inherited schools with two different languages of instruction and two traditions. Initially, officials were not prepared to develop a unified national school system and devoted most of their attention to schools with Latvian as the language of instruction. Despite the severity of problems facing Latvian schools, it is clear that the challenges facing schools with Russian as the language of instruction are even greater, since now they must be able to provide students with adequate Latvian language skills upon graduation.

The Ministry of Education and Science came to view the restoration of non-Russian minority schools during the first years of the independence struggle as a positive development, though these schools are few in number and have little impact on the system of education as a whole. The heightened attention paid to the schools of small minorities diverts attention from the real challenge — reforming the large number of schools with Russian as the language of instruction (see Table 4.4).

Increasingly, non-Latvian parents are sending their children to Latvian language kindergartens and schools (see ***Latvia Human Development Report 1995***). Unfortunately, most Latvian teachers are not prepared to teach classes with students having widely varying language abilities. Often, non-Latvian children are not proficient in Latvian and cannot keep up, their parents are not able to help them, and teachers do not have time to assist them. What is more, the children do not use Latvian at home. Thus, Latvian and

Table 4.4

Distribution of Schoolchildren in Basic and Upper Secondary Schools by Ethnicity and Language of Instruction, 1995

Ethnicity	No. of Schoolchildren	No. in Latvian Language Schools	% in Latvian Language Schools	No. in Russian Language Schools	% in Russian Language Schools	No. in Non-Russian Minority Schools	% in Non-Russian Minority Schools
Latvian	209,192	194,260	92.9	14,790	7.1	142	0.1
Russian	100,204	4,642	4.6	95,460	95.3	102	0.1
Belarussian	7,581	574	7.6	6,968	91.9	39	0.5
Ukrainian	5,865	413	7.0	5,312	90.6	140	2.4
Polish	5,268	525	10.0	4,140	78.6	603	11.4
Lithuanian	2,449	1,314	53.7	1,056	43.1	79	3.2
Jewish	1,279	39	3.0	849	66.4	391	30.6
Estonian	194	65	33.5	116	59.8	13	6.7
Roma (Gypsy)	719	425	59.1	267	37.1	27	3.8
Other	2,582	283	11.0	2,296	88.9	3	0.1
TOTAL	335,333	202,540	60.4	131,254	39.1	1539	0.5

non-Latvian children tend to communicate in Russian because it is their common language, and immersion techniques are not effective.

Due to the complex nature of the challenge, the government was long unable to develop a gradual, realistic and psychologically justified programme for promoting the state language. Neither Latvians nor non-Latvians are prepared for sudden changes, and the government lacks experience in language planning. Well-meant laws and regulations have not worked because implementation mechanisms derive from Soviet authoritarian thinking, which did not take into account psychological, pedagogical, and financial constraints.

From a human development perspective, it is regrettable that minorities have not been able to participate more fully in the reform process. By placing minorities on the receiving end of policy, the authorities lose potential partners who could be of great assistance in this politically and financially difficult matter. According to a recent survey study conducted by the Latvian Language Institute of the Academy of Sciences, the attitudes of the non-Latvian population towards the Latvian language have grown considerably more positive in recent years. At the same time, the government has not fully taken advantage of this shift in attitudes and risen to the challenge of addressing the needs of those who want to learn the language. In early 1996 implementation of the National Programme for Latvian Language Training remains a challenge for the future.

The National Programme for Latvian Language Training

A change in the hierarchy of languages requires considerable time and substantial funding. Simultaneous reforms in the spheres of education and language require even more time and resources. The Latvian government turned to the United Nations Development Programme (UNDP) to request assistance in the development of a Latvian Language Training Programme.

Box 4.4

The National Programme for Latvian Language Training

Based on the school and adult education curricula developed by the UNDP Latvian language mission, the programme includes the following objectives:

- retraining teachers and instructors in institutions of higher education;
- retraining Latvian language teachers in minority schools;
- retraining teachers in minority schools who will have to teach subjects in Latvian;
- training textbook authors and designing new textbooks;
- intensive courses for those ninth grade graduates not covered by the programme;
- development of a new examination system.

The Latvian language training programme for adults who wish to acquire or supplement their Latvian language skills includes:

- development of new teaching materials, including a teaching programme for television;
- retraining of experimental instructors and teachers;
- experimental instruction for specific professions;
- using television and other mass media to attract interest to Latvian language training events.

With the participation of officials from several institutions dealing with language policy, a National Government Working Group was formed to serve as a link between UNDP and the government.

After extensive preparatory work, UNDP convened an expert mission in May-June 1995. The mission consisted of national and international experts representing eight countries and three international organizations. The mission concluded that, in order to ensure the Latvian language skills of all residents and the status of Latvian as the state language, a comprehensive programme for teaching Latvian as a second language must be developed for schools and adults.

A basic tenet of the National Programme is the necessity of establishing a completely new speciality: Latvian as a Second Language (LSL). Teaching Latvian as a second language differs from teaching Latvian as a native language in content, teaching resources, and methods. Content must be geared towards the needs of the students and the subject must be rendered interesting and attractive by taking advantage of modern second language teaching methods. This is the only way to raise the prestige of the Latvian language and motivate students to learn Latvian. In order to achieve this goal, it will be necessary to reeducate instructors in institutions of higher education, employees at the Ministry of Education and Science and other institutions, teachers and textbook authors.

Latvia requires a consistent, clear, and realistic language policy. Since rapid changes evoke protest and render the situation uncontrollable, representatives of the expert mission recommended a ten-year transition period in which the LSL system could be gradually restructured.

Experts also suggested completely reforming the minority school system, so that in ten years time 50 percent of all subjects would be taught in Latvian. This would ensure the Latvian language proficiency of all students graduating from the ninth grade of minority schools and enable them to continue their education in Latvian. Those pupils outside this system, i.e. graduates from the ninth grade during the transition period, would be offered a three week intensive summer course to bolster their language skills.

The central actors in implementing these reforms are teachers in minority schools, who will

be required to instruct their subjects in Latvian after a given period of time. Three model programmes have been designed to raise their language proficiency and train them to teach their subject matter in Latvian. The plan requires close cooperation between teachers in Latvian and Russian language schools.

The Cabinet of Ministers has approved the "National Programme for Latvian Language Training" and UNDP has agreed to mobilize the funding necessary to support the implementation of the first four years of the Programme. As with all national programmes, the Latvian government will need to continue to take a clear stand on the necessity of the Programme and participate in funding it. For the effort to succeed, the public must be involved and informed about the process of change.

Since the autumn of 1994, a pragmatic, constructive approach towards Latvian language training has begun to take sway. The Ministry of Education and Science, the State Language Centre, and the Naturalization Board have increasingly begun to address this issue in cooperation with the Council of Europe and the European Union, as well as UNDP. LSL teachers have increased their involvement in international programmes and formed an Association of Teachers of Latvian as a Second Language to promote cooperation and the sharing of professional experience.

Changes in the Education Process

Schools on the Road to Independence

The adoption of an official Education Conception and numerous gatherings of educators notwithstanding, many teachers remain uncertain about their obligations and what the government expects of schools. This uncertainty derives primarily from confusion among educators, which itself is the result of a lack of regular communication between schools and the Ministry. Systematic explanation of innovations in the system of education is required, as is an improvement in communication among all involved in education. In education, as in other fields, broader participation and transparency will spur human development.

In the past two years, officials from the Ministry of Education and Science and related institutions have sought to explain the necessity and nature of changes through articles in the newspaper *Education and Culture*, nine appendices to that newspaper entitled "General Education" prepared by the Education Content and Examination Centre (ECEC), and trips to various regions of the country. However, more could be done in this regard, particularly in listening to the concerns of teachers. School directors, especially in rural areas, require special public relations skills for their schools to become an organic, integral part of the milieu evolving in harmony with local traditions. Greater involvement of the public (especially parents) in reform and the transformation of schools into cultural centres in rural areas and small towns will facilitate the accessibility of education to all and accelerate the process of human development.

As noted earlier, under the Soviet system, the organization of school work, curriculum and teaching methods were all centrally dictated — on any given day in any given subject, all pupils in all schools of the former Soviet Union were expected to have their books opened to the same page. Now, the functioning of schools is determined by the Law on Education, school regulations, as well as the particular school's curriculum, which is drafted in line with a model curriculum designed by the Ministry of Education and Science and national standards for each subject. Each school may design its own curriculum and even introduce new subjects.

While this provides some independence, progress in innovation is hindered by a lack of experience and resources. In a secondary school where two thirds of all teachers have more than thirty hours of instruction per week to earn more money in order to survive, there is physically no time left to develop a new curriculum and teaching resources. Many school directors and teachers continue to use twenty year old syllabi and resources, while awaiting instructions from

above. However, there are schools doing everything possible to acquire computers, introduce computer classes, integrate new subjects into the curriculum and alter the content of existing subjects. The ECEC has approved forty two new course descriptions this year designed by individual schools (e.g. psychology, history of religion, agriculture, business courses). In this way, the schools themselves can have a lasting impact on the entire system of education, because the school-designed courses often serve as models for ECEC recommendations.

Currently, for both schools and administrators at all levels, the importance of knowing one's rights and responsibilities cannot be overestimated. The core challenge is eliciting the initiative of schools and the public, while establishing clear, coordinated goals for schools nation-wide. For school autonomy to increase, educators and administrators require quality professional training: directors — in strategic development, planning, and administration; deputy directors — in managing the teaching process; curriculum specialists — in planning and coordinating changes in curriculum; head teachers and school administrators — in involving parents and the public in school activities and in seeking outside funding and resources. Furthermore, enhancing children's self-confidence and knowledge about the education system and involving them in the decision-making process in schools through student self-government will accelerate the reform process and deepen democracy, thereby contributing to human development.

A national programme for the development of new teaching resources is needed, with a focus on publishing innovative teaching materials and procuring modern teaching aids. It is truly paradoxical that while the government requires all secondary schools to offer computer courses and to use computers in teaching other subjects, according to Ministry of Education and Science data, there are only a total of 1,518 computers in Latvia's 1,058 schools, and many schools do not have a single computer.

In order to prepare schools for change and ensure that as many schools as possible benefit from innovations, channels of communication among schools need to be strengthened through school networking, exchange programmes and the dissemination of information through publications.

The Imperative of Coordinating Curricula

One of the greatest challenges facing reformers in general education schools is the lack of coordination between various courses and levels of education. It is currently unclear what a child should have mastered at each stage in the process of education and how the content of consecutive stages is linked, from pre-school to basic school to upper secondary school / the workplace on to higher education / the workplace. The system of elective subjects in upper secondary schools and the autonomy now enjoyed by institutions of higher education have only exacerbated the lack of coordination between various levels. In choosing their programme of study, upper secondary school students are often confused about which courses are required to enroll in institutions of higher education. The transition from a grading system of five to ten marks has heightened the insecurity of students. Teachers are not yet accustomed to the new system, but these marks remain an important component in admissions applications for higher education.

Current state education standards for basic school curricula are complicated, as each subject is developing independently of the others. As a result, one sees redundancy and irrational use of time and resources, which has a negative impact on the quality of education. The ECEC is still preparing and approving new education norms that constantly increase the knowledge required of children. At the same time, there is little agreement about the responsibilities of the schools. Although there are advisory councils for each subject, teachers have insufficient input. Enhancing the role of the advisory councils and increasing the involvement of teachers' associations would undoubtedly spur the reform process.

The ECEC plans to develop an "umbrella" norm expressing the fundamental goals of basic education and a core standard for upper secondary education. The focus at the elementary school level will be interdisciplinary, with more attention

to motivating children and promoting personality development and expressive skills than to unnecessarily expanding the required breadth of knowledge. The elaboration of these norms is essential, especially in basic education, so that they can assist in reordering and coordinating the existing overcrowded and uncoordinated system of subjects.

Some progress has been made: an integrated civics course has been introduced, an integrated natural sciences course is being developed for the middle stages of basic education, and experience has been acquired in teaching an interdisciplinary course on the environment. The organization and coordination of curricula in basic and upper secondary schools requires financial support. Investments are also essential for explaining and introducing the reforms and for publishing methodological materials and teaching aids for school directors and specialists.

Preparation for Life in a Democracy and a Market Economy

After the restoration of independence, there was an urgent need to rapidly incorporate many new subjects into the curriculum. Everything new in content or approach should first be introduced into the basic school curriculum, as this is the last and only formal source of education for many. Thanks to the initiative of enthusiasts and non-governmental organizations, environmental and health education, ethics, religious studies, civics, and economics slowly entered the school system in the late 1980s and early 1990s. The primary goal of all these subjects is to prepare students for life in a democratic society.

Environmental education owes much to the green movement, which played a path-breaking role in the independence movement. The objective of environmental education is to instill sensitivity for the environment in children and provide them with the skills to change the environment if necessary. The focus is on the development of critical thinking, promotion of the rational utilization and accessibility of resources, the development of local industries, and other options that today's schoolchildren will have to decide about in the near future.

Environmental education is being incorporated into Latvia's schools as an interdisciplinary subject or approach to learning which can be integrated into the content of existing subjects. Approximately 200 schools are currently involved in local or international environmental education projects or programmes. The "Environmental Education Guidelines for Basic Schools" will come into effect in the 1996-97 school year, which will legitimize the status of environmental education among more traditional subjects.

The general objective of health education is to change people's attitudes towards themselves and their mental and physical health. Health education has evoked many disagreements and divergent approaches, as the topic lies at the crossroads of medicine and education. Given the serious public health problems and related demographic crisis discussed in Chapter 2 on **Human Development During the Transition — The Latvian Context**, the importance of health education cannot be overestimated. Currently, health education is offered as a separate subject in one third of all schools, one to two lessons a week to all age groups, most often in grades 5 to 7. As with environmental education, the Ministry of Education and Science intends to make health education an interdisciplinary subject, leaving it as a separate subject only in the fifth grade.

Approximately 100 schools voluntarily introduced civic education in the ninth grade in the 1994-95 school year. Beginning in 1995-96, it is a required course in all schools for one-two hours a week as a replacement for the course on the fundamentals of law. The Democracy Advancement Centre, an NGO that cooperates closely with the Ministry of Education and Science, translated and adapted course materials from a similar course in the United States and distributed them free of charge to schools. The materials are also being translated into Russian. The civics course concentrates on interpersonal relationships and the analysis of everyday situations, instilling an understanding of basic human rights and principles of economics. An integrated civics course has also been developed for elemen-

tary schools. On the initiative of the Jelgava Spidola school, elected student delegates met in the Saeima last spring and formed a Student Parliament, which may be considered a practical school for democracy. Effective civics education may help overcome the deep divide between public and private life and the widespread distrust of government analyzed earlier.

If civic education develops skills and understanding about the workings of democracy, then ethics, cultural history, and religious studies should nurture the culture of interpersonal relations. Ethics and cultural history teach students tolerance towards differing opinions. Guidelines have been drafted for introducing ethics as a separate subject in upper secondary schools. Thus far, ethics has been a component of the upper secondary school elective entitled "Man, Nature, Society," which was introduced in the 1991-92 school year.

All schools are required to offer cultural history, an innovation dating from the 1988-89 school year, as an elective for three years, two hours per week. Teachers, scientists and cultural workers all participated in drafting cultural history teaching guidelines, which will be distributed to schools in the upcoming school year. Textbooks on cultural history are still needed, as students have until now relied on mimeographed materials as the primary source of information.

The matter of including subjects of a religious nature in the school curriculum has not yet been fully resolved. Disagreement has been prolonged by the differing approaches of various governments. The new government declaration stresses *religious studies*. According to Ministry of Education and Science regulations, the *history of religion* may be offered as an elective upper secondary school course, and this is done by about 20 schools. Schools have the option of offering other new courses, but the costs thereof must be covered by the municipalities, parents or other institutions. On this basis, about 200 schools offer *Bible studies*. Debate continues on the most appropriate means for including this subject matter in schools. A mutually acceptable compromise that takes into account the views of all religious confessions remains a challenge for the future.

The main task of economic education is to provide an understanding of the workings of the economy. Several economic programmes are currently being used, all at the secondary school level. One of the most popular is the applied economics course offered under the auspices of the Junior Achievement movement. About 100 of the 160 participating schools are active at the moment. There are about 60 student-run companies in Latvia created as a part of this course. Several schools offer a 40-hour long practical business course "Working for Yourself!" run by 80-90 teachers. In conjunction with partners from Denmark, an economic education programme began last year involving seven commercial schools, eight technical schools, and trade schools. There are also programmes designed by individual schools. In sum, about one third of Latvia's 370 upper secondary schools offer a general economics course.

Economics is also to be introduced into eighth grade basic school classes in the 1996-97 school year (36 or 72 hours). 20 schools are voluntarily experimenting with the course at the moment. It must also be noted that the traditional farming and agricultural mechanics courses in rural upper secondary schools are also gradually changing; they are now offering rural enterprise and basic business courses parallel to the practical knowledge and skills of a particular branch of agriculture. Introducing economic education into school curricula is hindered by the same hurdles affecting other new courses: the lack of qualified teachers and satisfactory teaching materials. Due to the rapid, confusing pace of change in the economy, writing an economics text with materials on Latvia for basic or upper secondary school is exceedingly difficult. Public awareness needs to be raised about economics as well, as the word "business" often carries negative connotations for many school administrators and parents.

Undoubtedly, these new subjects have had a significant impact on teaching approaches and methods, but that is not enough. If enthusiasts continue to develop only their own specialty without attempting to influence broader attitudes towards teaching, these subjects will remain something exceptional in the eyes of children, whose attitudes towards traditional school subjects will grow more negative. The constant introduction of stimulating, new subjects is a drain on human

and material resources, which will only reinforce the fragmentation of school curricula.

In order to introduce these topical subjects into schools, continuing education programmes for teachers are essential, as is the location of partners to assist in the development of new subjects and teaching resources. New grading criteria still need to be drafted and non-traditional technologies exploited. All in all, the proper place for these topics and subjects in primary and secondary education has yet be found.

The Education and Continuing Education of Teachers

The Qualitative Structure of Teachers

The teachers of today are largely responsible for creating the foundation for future human development — free, independent thinking individuals capable of setting goals and achieving them sensibly and responsibly. There are currently 42,000 teachers in the country, of which 32,000 work in general education institutions, 3,800 in professional education institutions, and 8,600 in pre-schools. A priority task for the state must be the education, continuing education, and improvement in the professional qualifications and status of these educators.

On average, only 66 percent of all educators working in institutions of education have adequate education: only 28 percent in pre-schools, 63 percent in basic schools, and 80 percent in upper secondary schools (see Table 4.5). Previously, some teachers received their education in teacher training institutes. Now new educators are trained in academic institutions of higher education in Bachelor's degree programmes and/or professional study programmes. Professional study programmes in education are offered by the University of Latvia, Liepaja Teacher Training College, Daugavpils Teacher Training University, Latvian Sports Education Academy, the Riga College of Teacher Training and Administration and other institutions of higher education. The content of these programmes is divided into three basic sections: (1) education, psychology and other social sciences; (2) basic scientific studies which correspond with school subjects; and (3) general studies.

Recent research has revealed how students in teacher training institutions rate their own preparedness for work in their chosen field:

- 4 percent consider themselves completely prepared;
- 60 percent consider themselves more prepared than not;
- 35 percent consider themselves more unprepared than prepared;
- 1 percent consider themselves totally unprepared for their chosen speciality.

Table 4.5

Educational Background of Teachers in General Education Schools, 1994-95

Institution	% Teachers with Higher Education	% Teachers with Incomplete Higher or Secondary with Speciality in Education	% Teachers with General Secondary or General Professional Education
Basic (Grade 1-4)	68	18	14
Basic (Grade 5-9)	57	30	13
Upper Secondary	80	12	8

Table 4.6

Education and Professional Experience of Working Teachers, 1994-95

Education	Years of Teaching Experience				
	< 1	1-2	2-5	5-10	> 10
Higher	759	914	2230	4140	16,896
Incomplete Higher or Secondary with Education Speciality	293	319	763	965	2345
General or Professional Secondary	737	507	725	632	860

Institutions of higher education are exploring ways to improve the quality of education and psychology courses and to find a union between theory and school conditions that are rapidly changing. The diversity of available courses has grown, and a transition is being made from educating teachers to instruct only one subject to several subjects, so that teachers can cope with interdisciplinary subjects and devote more attention to children's intellectual development. Declining birth rates in recent years suggest that the demand for teachers will decrease in the future, and broader specialization will enable teachers to compete better in the job market.

As Table 4.6 demonstrates, 84 percent of all teachers with experience of up to ten years have a higher education, which is true of only 47 percent of all teachers with one to two years of experience. In other words, there is a trend towards declining educational attainment among teachers. Another alarming trend is the age structure of the teaching community — the proportion of retirement-age working teachers is on the rise. Of course, this has eased the teacher shortage somewhat. But extensive experience in Soviet-type schools may very well hinder the reform of the curriculum and teaching methods. Now that retirement-age teachers may receive both a salary and a full pension, many will invariably continue teaching. These teachers must be included in a broad and diverse continuing education programme. Only 12 percent of all teachers in continuing education programmes this year were pension-aged.

Opportunities for Continuing Education

Some teachers supplement their professional education on their own, others in professional associations, some attend seminars or courses in local education centres, still others attend courses at universities and other institutions of higher education in Master's and Doctor's degree programmes. A good source of information on the opportunities available to teachers is the Educators' Continuing Education catalogue published in 1995 and 1996. A Teachers' Continuing Education Support Fund has been founded in the hopes of developing a unified system of teachers' education and continuing education, and there are plans to establish regional centres and a school support network. A Teachers' Education Support Centre was opened in autumn 1995.

The 1995 state budget anticipated granting 150,640 lats for the organization of continuing education courses, a sum 2.5 times more than in 1994. The state allocated only 131,478 lats, of which 112,166 were utilized for the payment of lecturers, development of teaching materials, rent, etc. The full 1996 budget proposed for this purpose was 150,850 lats, but the expected allocation is 122,478 lats. Even allocated funds are not used effectively, because:

- continuing education courses are organized according to the availability of lecturers rather than demand by educators;
- the choice of lecturers remains extremely

limited, especially in the most demanding subjects, such as administration;
- there is a shortage of professional education material in Latvian;
- teachers are often incapable of working with literature in a foreign language (mostly English and German).

As of 1995, the government has provided financial assistance (fees and transportation costs) to teachers to attend courses in institutions of higher education. More than 8,000 teachers improved their professional skills in 156 continuing education courses, meaning every fifth teacher had the opportunity to participate in these state-funded courses in 1995. The number of participants has risen substantially as compared to the preceding year. However, according to the Law on Education, over a three-year period each teacher is entitled to 30 days paid vacation for professional training, which means that 13,000 teachers should be involved every year.

Priority areas in continuing education for the next two years include enhancing the professional skills of administrators; educating specialists in the sociology of education, the economics of education, and education statistics; the preparation of basic school teachers to teach several subjects and interdisciplinary topics; education of teachers at professional education institutions.

Professional Teachers' Associations

Currently, educators are manifesting a rather high level of activity and initiative. The demand for improving professional training exceeds supply, which is why many teachers are forming associations to share experiences and learn from one another. Associations of teachers of a given subject have been in existence for many years and a number of new organizations have emerged in recent years: the Environmental Education Association, the Health Education Association, the Christian Teachers' Association, the Democracy Advancement Centre, the Council of Educators and the group "Education for the Future of Latvia." This cooperation fosters teacher unity, facilitates the sharing of experience, and enhances the influence of teachers on education policy. Moreover, involvement in such activities leads teachers to an awareness of their role in public life and the development process more broadly.

Many teachers and school directors have become involved in international projects, but administrators must devise ways to maintain the initiative of teachers by offering courses of interest to teachers and providing financial incentives. Otherwise, interest in continuing education will decline and the reform process will slow.

Conclusions and Policy Recommendations

Comprehensive reform and improvement of the education system must be considered a core component of Latvia's sustainable human development strategy. The recommendations listed below target all aspects of the education system: the content as expressed in school curricula, the schools themselves, the teachers, students and, of course, the means to finance sustainable reform. Since changes need to take place rapidly and tough choices lie ahead, dialogue among administrators, educators and the broader public is essential.

Undoubtedly, there is an urgent need for the development of national standards and guidelines not only for the basic subjects taught in basic and upper secondary schools, but also for new subjects being introduced to the curriculum (e.g. environmental and health education, civics, etc.). The autonomy granted to schools in recent years does little in the absence of a basic framework to guide teachers in presenting material which was either ignored completely or taught with a distinct ideological twist. The new standards should include readily understandable performance measures.

To address the lack of teaching resources in Latvian for old and new subjects, consideration should be given to establishing teams for the preparation of new teaching resources under the framework of a national programme. While it is

necessary to bolster national teacher education capacities in general, there is an urgent need to develop education administration skills.

The discussion of national guidelines and standards and the development of new materials should be as participatory as possible. It is especially important to elicit the participation and input of teachers and other representatives of Russian-language and other minority schools, as these schools will witness the most far-reaching changes in future years when the National Programme for Latvian Language Training is implemented. Both the Programme and other reforms require a sustained public relations effort to explain to all parties, especially parents, the changes underway.

Any increased revenue collected could permit greater education expenditures in the aggregate. More importantly, however, the proportion of the education budget allotted for investment must be increased. As one viable option, short-term reform-based financing may best be sought through international financial institutions. In the long term, investments could in part be financed through reforms. Recent enrollment statistics confirm that demand for higher education is increasing. The possibility of introducing tuition fees and guaranteed student loans should be fully explored. This would allow for the reallocation of some resources from higher education to basic and upper secondary education. Furthermore, to make resource allocation in higher education more efficient, a system of student loans could be instituted whereby the destination of financial resources would depend on demand for education in a given specialty. If demand were higher for law and economics, more credits would go to those departments.

Education finance reform could also be tied to municipal finance reform, the goal of which is to decrease the reliance of municipalities on the state budget for their revenues. For example, if municipalities had greater authority to levy taxes and duties and the local community were willing and able to pay, new resources could be generated for local primary and secondary schools.

The cost-efficiency of education financing could be improved through consolidation of under-utilized schools, thereby also increasing student-teacher ratios. However, any such reorganization must be done with a view to maintaining quality and fair access to education. In other countries of the region facing similar reform imperatives, common first steps towards increasing efficiency include reducing over-specialization, especially in vocational training and specialist institutes of higher education, and eliminating duplication of educational facilities offered by different sectoral ministries. If the experience of the rest of the region is any guide, adjustments of a similar nature are inevitable in Latvia, and a proactive policy is preferable to arbitrary cuts by default.

Ultimately, it is teachers who implement virtually all changes in the education system. Changes in the curriculum require corresponding education for teachers to be able to present the new material effectively. Recently formed teachers' associations could be a valuable source of information regarding education needs, especially if they prove to be a mechanism that facilitates teachers' participation in the education reform debate. The importance of facilitating broad-based participation to sustain wide-ranging reform applies not only to education, but to all priority reform areas of Latvia's transition. Therefore the next and last chapter of this Report provides an analysis of participation in Latvia and highlights its pivotal importance for the promotion of human development.

Chapter 5

Participation and Strengthening Civil Society

Introduction

Participation, or at least the opportunity for participation, is the most essential element of democracy. Participation is necessary to ensure that decisions of national importance are made in accordance with the popular will and that political leaders represent the people. By linking the people to government, participation can help bolster popular trust in public life more generally. As noted earlier, such trust is a commodity in short supply in many countries in transition. While participation creates vertical linkages, popular participation in politics, economic activity and social life also strengthens horizontal linkages in society. These horizontal linkages — among the members of a political party, within the ranks of a non-governmental organization (NGO) and the like — give people the opportunity to acquire new information, master the knowledge and skills necessary for a democracy to flourish and develop contacts with other people. Successful human development requires both strong vertical linkages between state institutions and society and diverse horizontal linkages.

The German scholar Gert Meyer has argued that the necessity of political participation is growing worldwide. This is a consequence of:

- the need for individual self-realization;
- the demands of informally or formally organized groups for autonomy and pluralism in addressing socially important issues;
- participation as an instrument of political legitimization;
- participation as a precondition for economic growth, increased labour productivity and technological innovation;
- the increased role of participation in the implementation of effective reforms both during crises and in periods of stable social development.

Participation is a non-monetary resource which can promote development without straining the state budget. It is also an essential element in a democracy, preparing people for the new conditions of freedom, responsibility and opportunity and bringing home the fact that these qualities are inextricably linked. A politically active population can draw the government's attention to problems arising in the development process. Government can then respond in a timely manner to address the issues and avert negative trends.

On the other hand, no unequivocal conclusions about the impact of participation during democratization are possible. A mobilized population may refuse to endure the difficult social consequences of the transition for the benefit of indefinite gains in the future. As a result, not only individual unpopular governments, but democratic institutions themselves, as well as overall reform policies, may lose legitimacy.

The question then becomes how can popular participation be promoted in such a way as to facilitate the reform process and strengthen democracy? This is one of the most important dilemmas faced by the new democratically elected governments.

Trends in Participation

Participation: Quantity and Quality

In post-socialist societies, participation has a number of peculiar characteristics relating to

Box 5.1

Government in Latvia

The Republic of Latvia declared independence on 18 November 1918. A Constitutional Assembly was elected in April 1920 and the *Satversme* (Constitution) was adopted on 15 February 1922. Following the restoration of independence in 1991, the *Satversme* once again became the foundation of government in Latvia. Among the core features of Latvia's system of government are the following:

- a one-chamber Saeima (parliament) consisting of one hundred deputies elected for a term of three years;
- the Saeima elects the State President for a term of three years;
- the Prime Minister is nominated by the State President and, together with the Cabinet, must gain the approval of a majority in the Saeima;
- the appointment of judges is confirmed by the Saeima.

Political parties and associations must submit lists of candidates to the Central Electoral Commission and parliamentary elections take place on the first Sunday of October and the preceding Saturday. Lists of candidates are elected on the basis of proportional representation. To gain representation in the Saeima, an electoral list must garner at least five percent of all votes cast (before the 1995 elections, the threshold was four percent).

Elections to the Saeima were held in 1922, 1925, 1928, 1931 and following the restoration of independence, in 1993 and 1995. Thus, the current parliament is the Sixth Saeima.

There are 12 Government ministries in Latvia — the *Ministries of Agriculture, Culture, Defence, Economy, Education and Science, Environmental Protection and Regional Development, Finance, Foreign Affairs, Interior, Justice, Transport and Welfare, Labour and Health*. Neither the Prime Minister nor the members of the Cabinet are required to be Saeima deputies.

Latvia has a three tier court system — district (city) courts, regional courts and the Supreme Court. Legislation establishing a Constitutional Court is currently in the Saeima.

Local government in Latvia is decentralized, consisting of a total of 594 municipalities: 7 Republic-level cities (Riga and the six largest towns — Daugavpils, Jelgava, Jurmala, Liepaja, Rezekne and Ventspils), 26 districts, 69 towns, and 492 rural districts.

Further information can be obtained on the World Wide Web from the Saeima homepage, URL: http//www.saeima.lanet.lv

quantity, structure and content. At the beginning of the national awakening in the late 1980s, the level of popular political participation grew rapidly along with liberalization. All former socialist states experienced the so-called "wave of participation," which differed radically in form from the participation cultivated during the years of Soviet rule.

For the first time since the 1930s, the Latvian people enjoyed relative freedom to express their thoughts, views and opinions, to form political movements and parties, that is, alternatives to the Communist Party of the Soviet Union (CPSU), and various non-governmental organizations, to participate in rallies and demonstrations in accordance with their own views and will,

rather than in submission to the decrees and control of the ruling totalitarian structures. During the period 1988-1991 the level of political activity was high: the level of "unconventional" participation (for example, protest) in Latvia was several times greater than the average level of activity in democratic countries (see Tables 5.1 and 5.2).

However, it should be noted that the "awakening" period of the late 1980s was an extraordinary time in Latvia's history — as in so many other transition countries — and it would be relatively safe to posit that such levels of participation are not likely to be reached again. A comparison of survey data from 1991 and 1994 demonstrates that popular political participation has indeed declined overall. Furthermore, data on popular activity in 1995 indicate that during the past year only contacts with representatives of political institutions have grown, whereas the number of people involved in non-governmental organizations continues to fall (see Table 5.2). Likewise, fewer people participated in campaign activities leading up to the Sixth Saeima (Parliament) election than was the case with the Fifth Saeima election.

In order to gain a deeper understanding of participation in Latvia, individual forms of participation must be analyzed more closely. Such an analysis can involve a very broad overview of various forms of participation; however, a sufficiently clear picture of popular political activity can be gained from the data on participation in elections, election campaign organization, contacts with representatives of political institutions, protest activities, and political parties and NGOs. Comparative studies are typically based on analysis of precisely these forms of participation.

Participation in Elections

In Latvia, as in developed democracies, elections are the form of participation which attracts the most people. However, since 1990 the percentage of the population participating in elections has decreased with each Parliamentary election (see Tables 5.1 and 5.3). This decrease can be explained by a range of factors.

In 1989 and 1990, elections took place under conditions of heightened mass political activity and clearly defined electoral conflict. The electoral goal of one segment of the population was the restoration of independence, democratization of society and introduction of a free market economy, while the goal of the other (less active) segment was the preservation of a unified USSR. In the elections, the former group triumphed.

The decline in electoral activity during the Fifth Saeima election can be explained by a specific factor: legislative changes. Only those inhabitants of Latvia who had renewed or inherited Latvian citizenship could participate in the Fifth Saeima election (see Boxes 5.1 and 5.2). Nearly a third of Latvia's voting-age population — all

Table 5.1

Political Participation in Latvia, 1988-1991
(Percentage voting at least once during the given time period)

	Total Population	Latvians	Other Groups
Election			
USSR Congress of People's Deputies, 1989	69	77	61
Local government, 1989	78	84	72
Latvian SSR Supreme Council, 1989-1990	80	88	72
Never voted	10	6	14

Box 5.2

Ethnic Aspects of Participation and Prospects for Integration

In view of the multiethnic nature of Latvian society (see ***Latvia Human Development Report 1995***), an analysis of the ethnic dimensions of participation and democratization is highly instructive. Democratization is dependent on the sociopolitical activities and civic consciousness of both individuals and groups. If the activity levels of various ethnic groups are balanced and founded on more or less similar social and cultural values, then the possibility of mutual integration increases. On the other hand, if various ethnic groups are socially and culturally very different or if they consider themselves to be so, then the process of integration can meet with hostility and can threaten democratization.

Since the beginning of the awakening in the mid-1980s, non-Latvians have been less active politically than Latvians (see Tables 5.1 and 5.2). One explanation could be that during the Soviet period Latvians felt discriminated against both as representatives of an ethnic group and as individuals. This "double pressure" fostered solidarity among Latvians and served as a basis for social-political activity. Survey data indicate that nearly two-thirds of Latvians consider ethnicity as their primary collective identity, as compared to only one-fifth of all non-Latvians. Thus, among Russians and other non-Latvians in Latvia, ethnicity could not serve as a unifying element in the struggle against Soviet power. The significance of Latvians' shared historical experience as citizens of the pre-war independent state of Latvia should not be underestimated.

Since the renewal of independence, the level of political activity among the majority of non-Latvian ethnic groups has remained below the national average. In part this can be explained by the fact that nearly two-thirds of non-Latvians, most of whom entered Latvia after the second World War under Soviet migration policies, are not citizens of Latvia and therefore may not vote in elections. Despite criticism of the Law on Citizenship, many potential citizenship candidates have so far demonstrated little initiative toward obtaining citizenship. For example, the number of those entitled to apply for citizenship in 1995 has been estimated by some to be as high as 200,000, while only just over 17,000 had taken advantage of this by the end of January 1996. There are several possible reasons for the lack of activity in this realm: inadequate information about the procedure for obtaining citizenship, the desire to preserve certain advantages of being a non-citizen (not needing a visa to travel to Russia, not having to serve in Latvia's military forces), the relatively high application fee and the requirements of the Latvian language examination for naturalization.

If non-Latvians have been comparatively inactive in the sphere of political integration, the same cannot be said of trends in education, culture and other areas. Survey data indicate that in recent years the views of Latvians and other ethnic groups have grown closer on nearly every issue. More importantly, since the restoration of independence the number of non-Latvian children attending Latvian-language schools has continuously increased. This trend is favourable from the perspective of democratization, as it promotes integration of the new generation of non-Latvians into Latvia's majority culture, reduces value differences between various groups and facilitates the acquisition of Latvian and thus, passing the naturalization exam. If the National Programme for Latvian Language Training is aggressively implemented (see Chapter 4 on **Education Reform**), the pace of integration may significantly pick up as well.

Soviet-era immigrants and their descendants — was unable to participate in the electoral process. This affected not only the level of electoral activity among the population at large, but also the level of activity in other forms of political participation. On the other hand, the level of electoral participation decreased among citizens as well, particularly in the local government elections in 1994 and the Sixth Saeima election in 1995 (see Table 5.3).

While the Law on Citizenship was passed in 1994, initial levels of naturalization have not substantially enlarged the electorate. The decrease in participation in the Fifth Saeima elections, as compared to previous votes, can in part be understood in the context of the citizenship debate, whereas the decrease in voting among those who could vote in both the Fifth and Sixth Saeima elections can be partially explained by the sharp decline in the standard of living (see ***Latvia Human Development Report 1995*** and Chapter 3 on **Economic Policies and Changes in Living Standards**). The socioeconomic situation which developed after the restoration of independence did not fulfill the hopes which the majority of citizens had nurtured during "the Singing Revolution." Economic stratification and a sharp polarization of income levels engendered political alienation in a segment of the citizenry.

If the 1990 Supreme Council election was a single-issue election, then the Fifth Saeima election can be seen as an election based on personalities or a popularity contest, as the largest proportion of voters (40 percent) selected electoral lists on the basis of the candidates themselves (see Table 5.4). Partly as a consequence of rising public impatience for the benefits of reform as well as incidents such as the banking crisis, the majority of political leaders suffered a loss of credibility during the past years; therefore, in the Sixth Saeima election only 17 percent of voters' choices were based on trust in a particular candidate (see Table 5.5). Party identity as a determinant of electoral choices is also weak, for party memberships have not yet stabilized (only one out of four voters voted for a party to which he/she identifies himself/herself as belonging). To a certain degree the Sixth Saeima election can be viewed as a protest vote, for the majority of voters chose a list other than the one they supported in the Fifth

Table 5.2

Political Participation in Latvia, 1988-1995
(Percentage participating at least once during the given time period)

	1988-1991			1991-1994			1995		
	All	Lat.	Other	All	Lat.	Other	All	Lat.	Other
Participation in election campaigns	38	44	31	24	30	18	19	19	19
Contacts (with Saeima deputies, local council members, civil servants, media representatives)	48	56	40	20	28	12	28	36	19
Party membership	20	32	7	3	5	1	5	8	2
Social organization membership	54	52	56	42	48	37	20	26	12
Protest (participation in demonstrations, strikes, pickets, petition signing)	80	89	70	24	32	16	12	12	12

Table 5.3

Participation in Elections 1993-1995
(Percentage of eligible voters voting)

Fifth Saeima election, 1993	89
Local government elections, 1994	63
Sixth Saeima election, 1995	72

Saeima election. More than 10 percent of voters state that they voted for a list with which they do not agree, because there was no alternative.

Electoral activity was also affected by elite-mass alienation. People's belief in the efficacy of their participation is low (see Table 5.6). Since channels of mass political participation are weakly developed, people were activated to vote as a protest against the slow and in some cases unsuccessful course of reforms and the accompanying problems — unemployment, the banking crisis, increasing crime. The niche created by popular-elite alienation was successfully filled in the Sixth Saeima election by a few populist parties which, by criticizing unpopular government decisions and mistakes and promising rapid prosperity, stimulated heightened electoral activity.

The level of electoral participation is also adversely affected by the slow emergence of popular consciousness about socioeconomic interests. Among the social groups capable of consciously linking their interests with a particular political party were successful business people, their family members and the bureaucracy. Among the most active voters in the Sixth Saeima election were also salaried employees of state enterprises and government agencies, and the self-employed. As in previous elections, women were slightly more active than men, and residents of rural areas and small towns were more active than inhabitants of Riga, which can be explained by the fact that a greater portion of non-citizens live in the capital.

Participation in Electoral Campaign Organization

Participation in electoral campaign activities takes different forms, such as campaign management, campaign work on behalf of a candidate or party (organizational responsibilities, preparing various written materials, disseminating campaign literature), fundraising and contributing, campaigning at home and at work, organizing and attending rallies, participating in and organizing meetings with candidates, working at polling stations and so on.

Participation in campaign activities requires a relatively high degree of personal initiative. In Latvia the most popular activity during both the Fifth and Sixth Saeima elections was attendance at campaign rallies and gatherings (see Table 5.7); however, this is the form of participation which demands the least personal initiative, along with contributing money and participation in electoral committees.

A comparison of survey data from the Latvian Soviet Socialist Republic Supreme Council election campaign in 1990, the Fifth Saeima election campaign in 1993 and the Sixth Saeima

Table 5.4

What Determined Your Choice in the Fifth Saeima Election?
(Percentage of respondents)

Candidate I wished to support was on the list	40
Liked campaign platform	22
Other lists were less acceptable	15
Recommended by friends, family	9
No reason	3
Candidate made a good impression in the mass media	3

election campaign in 1995 reveals that popular involvement in pre-election activities has fallen, particularly during the Sixth Saeima election campaign (see Tables 5.2 and 5.7). Among the more active participants in campaign activities were state and private-sector salaried employees, business people and students. People with either a low educational level (incomplete secondary education) or a higher education were more active than people with a secondary education. It is interesting to note that prior to the Sixth Saeima election women were more active than men in all campaign activities except campaign management.

Contacts with Heads of Government Agencies, Civil Servants and Media Representatives

This form of participation comprises contacts with Saeima deputies, local government council members, directors and employees of executive branch structures and the media. It is an important indicator of popular political activity, for it reflects people's readiness to participate in the political decision-making process. During the transition period, however, it can also reflect people's attitudes toward and trust in newly created democratic institutions. In the worst case scenario, contacts can reflect not participation, but the process of overcoming bureaucratic barriers created by these very institutions themselves.

Research data indicate a noticeable decline in this form of participation between the 1988-1991 period and the 1991-1994 period (see Table 5.8). One reason for this decline is disappointment with the performance of new democratic institutions, which is confirmed also by the measurement of trust for these institutions (see Table 5.9). Although trust in new democratic institutions increased overall during the 1992-1993 period, nonetheless people have greater trust in the institutions of civil society (the church, the media) and banks (until May 1995) than in political parties, local governments, the Cabinet of Ministers and Parliament.

Table 5.5

What Determined Your Choice in the Sixth Saeima Election?
(Percentage of respondents)

Voted for party I consider mine	26
Campaign platform most closely conforms to my views	18
Candidate I wished to support was included in the list	17
Other lists were less acceptable	12
Recommended by friends, family	6
Liked party's performance in Fifth Saeima	5
Candidate made a good impression in the mass media	5
No reason	3

Analysis of survey data indicates that the most popular and most frequently contacted were local government council members and civil servants, whose involvement, regardless of the lack of trust, is necessary in addressing social issues and in launching a private business (see Table 5.8). People were significantly more reserved in contacting representatives of other state agencies. Overall the level of this type of activity during the 1991-1994 period was around three to four times lower than in more developed democracies.

However, studies indicate that the situation has changed in the last year, and activity has increased slightly. During the last year, residents of Latvia's largest cities (except Riga) have been more active in attempting to resolve problems with the assistance of local government civil servants and council members. Among the most active groups are salaried employees and business people, Latvians, and people with higher education in the 26-55 age group. Housewives and women are less active in contacting government agency employees.

Chapter 5

The Media: Problems and Influence

One of the most important factors affecting participation and the development of civil society during the transition is media activity and media interaction with broad segments of the population.

During the period of the awakening, Latvia's media played a pivotal and irreplaceable role in unifying, consolidating and inspiring the nation, thereby acquiring widespread authority and respect. In the post-awakening period, the media have retained popular trust to a greater degree than other institutions, although this trust is gradually dwindling (see Table 5.9).

During any transition period, the media play a critical role, as the need for free, democratic discussion is particularly acute. Discussion is needed on the appropriate model of state-building and on managing the transition from an administered to a market economy so that the welfare of all segments in society improves. Only through a broad public debate on strategy and reform measures can the popular sense of participation in and shared responsibility for the state be preserved. Such a debate is an essential instrument for the creation of civil society and the promotion of human development.

Unfortunately, few journalists, politicians or members of the public were prepared for such a debate in Latvia. Most media outlets were not prepared to effectively present difficult transition issues. Instead, much of the media maintained, if it did not actually create, a sense of euphoria, which later contributed to a bitter sense of disillusionment. Instead of attempting to identify the root causes of problems, many politicians and media outlets continued to offer familiar, simple answers to the complex issues related to Latvia's transformation to a market-oriented state based on the rule of law.

The 1995 banking crisis directly affected the financial status of many media outlets and sharply diminished the advertising market. Since 1992 advertising had already come to account for a significant portion of media income. 1995 put the entire media sector in a difficult position: for the first time since 1992, the supply of journalists exceeded market demand. This affected the major newspapers as well: one went bankrupt and others were forced to cut staff. National television, too, announced the layoff of a third of its staff at the end of 1995.

Attempts to introduce "quality journalism" — journalism that sets standards and establishes the influence of the media, actively fosters and expresses independent social thought, renders

Table 5.6

Respondent's Views of Ability to Influence Government Policy, 1993-1994 (Percentage of respondents)

	December 1993	May 1994
Society has inadequate ability to control political events	75	75
The average person can accomplish nothing by appealing to civil servants	75	75
Government generally pays attention to society's views	21	22
Politicians' decisions generally serve the national interest	20	22

government transparent and acts as a watchdog — have encountered difficulties. On the one hand, qualified journalists are scarce, on the other, public support for such journalism is weak. One explanation is the negligible size of the middle class, which is the primary consumer of quality journalism.

While some media outlets continue to blur the line between news and commentary, others have blurred the line between news and advertising. Several journalists admitted to accepting payment for publishing pre-election interviews during the autumn of 1995. Similar processes take place in other media, including television, where many broadcasts are "privately" funded either in full or in part, and advertisements are presented as substantive journalism. As a result, information provided by the media is often "doctored" and inaccurate, which frustrates the public and alienates the potential media audience. In an attempt to preserve the audience (and the interest of potential advertisers), journalists increasingly resort to sensationalism.

Journalism with a weak quality component cannot adequately ensure the development of civil society: sensationalism and scandals obscure causal relationships and the real issues. The mass media thereby often fail to promote social integration, but rather alienate the public from the state and politics. The public, in turn, feels a growing sense of insecurity and helplessness, resentment, and a conviction that the average person is incapable of influencing the political decision-making process.

The role of the mass media in promoting social integration in a heterogeneous country like Latvia cannot be overemphasized (see also Box 5.2). However, both the choice of material and the presentation of issues differs radically in the Latvian- and Russian-language media: one often has the impression that they depict different countries. Audience surveys carried out by Baltic Media Facts have shown that for the most part the readerships of Russian-language and Latvian-language publications do not overlap; the exceptions are advertising publications and, even more so, children's publications. For example, one third of the readership of some Latvian children's publications are non-Latvian children. This may well promote the integration of the new generation of non-Latvians into the Latvian milieu.

In spite of difficulties in the media market, public contact with media representatives has grown during the past year (see Table 5.8). Survey data indicate that students, state and private-sector salaried employees, women, people with higher education, people in the 26-55 age group and Latvians are the most active in this respect.

Table 5.7

Participation in Electoral Campaigns, 1988-1995
(Percentage of respondents, at least once during the given time period)

	1988-1991	1991-1994	1995
Participated in candidate nomination meetings	25	-	-
Led or participated in electoral campaign	-	2	3
Promoted a candidate	13	4	2
Attended campaign rally	-	6	5
Worked on electoral committee	7	3	2
Worked at polling station	11	3	-
Attended meeting with candidate	-	-	7
Participated in no pre-election activities	62	76	81
No answer	6	6	-

Participation in Protest Actions

Protest is an unconventional form of participation. However, during the transition, especially in its early phase, protest plays a noteworthy role. On the other hand, the same forms of protest can reflect radically different content and goals at different points in time. During the first phase of the transition (1988-1991), protest activities were directed against totalitarian institutions and the level of such political activity (signing and launching petitions, participating in demonstrations, picketing, strikes) was much higher than in stable democracies. It is self-evident that the activity level would fall off during subsequent phases of transition. Moreover, after the attempted August 1991 coup, the content of protest actions changed radically and began to reflect dissatisfaction with difficult social conditions, the slow pace of reforms and the disappointing performance of state institutions (e.g. the bank crisis).

However, protest activities have diminished so greatly as to suggest mass passivity (see Table 5.10). Up to May 1994 inhabitants of Latvia were several times more passive than those of stable democracies in certain forms of protest, such as petition signing and participation in demonstrations. The situation changed to a certain degree in the second half of 1994 and in 1995, when dissatisfaction with economic conditions motivated first physicians and then teachers to strike. At the end of 1995 dissatisfaction with low wages and a weak social safety net was expressed by 30,000 people in a march led by the Latvian Association of Free Trade Unions. Despite the overall decline in protest activities, survey data does confirm that participation in demonstrations and strikes has increased during the past year (see Table 5.10).

A comparison of data from 1993 and 1995 suggests that the past two years have seen an increase (from 30 percent to 40 percent) in the number of people who believe that they might participate in protest demonstrations because of economic hardship (unemployment, closing of enterprises). The most active protesters are Riga residents and salaried employees of government agencies and state-owned enterprises. Citizens have signed petitions more frequently than non-citizens. Again, people with higher education and in the 26-55 age group have been the most active protesters.

Participation in Political Parties and Movements

In the initial stage of the transition period, the umbrella Popular Front organization, as well as various parties and social organizations devoted their energy to the deconstruction of the old system, reviving the nation's historical memory and unmasking the crimes of the Soviet regime. They succeeded in mobilizing people against the regime, involving one-fifth of Latvia's population in their activities. After the restoration of independence, the subsequent loss of a unifying goal and the emergence of divergent political interests among party leaders, a process of fragmentation and regrouping set in. Some parties ceased to exist, while others split or fused to form new parties.

This process generally had a negative impact on the recruitment of new party members and the formation of a party image with the public (see Table 5.2). Nonetheless, in 1994 3.4 percent of respondents indicated membership in a political movement or party, and in 1995 this figure had grown to about 5 percent. The level of trust in political parties remains low, noticeably lower than for other institutions. This can largely be explained by the fact that both the party system and party membership have yet to stabilize. Voters have encountered difficulties in orienting themselves among the numerous parties and their programmes (for example, 19 party lists competed in the Sixth Saeima elections).

The majority of parties are active only during the pre-election period, as activators of mass political participation and as intermediaries between state institutions and civil society. One exception is the "For Fatherland and Freedom" party's petition drive to hold a referendum to amend the Law on Citizenship. 10,000 signatures were collected to initiate the petition process, but the subsequent attempt to garner the signatures of the required 10 percent of eligible voters in

January-February 1996 failed. However, more than 126,000 signatures were collected overall, which suggests that it is possible to elicit citizen participation in the legislative process.

Since the Fifth Saeima rejected a bill proposing state financing of political parties, parties must rely on private donations. However, this has contributed to transforming some parties into lobbies that mediate between their financial supporters and the government bureaucracy (see also Chapter 3 on **Economic Policies and Changes in Living Standards**). One attempt to curb this trend met with failure, when deputies of the Sixth Saeima voted to delay implementation of an anti-corruption law until 1 June 1996. This law forbids parliamentary deputies from having paid employment elsewhere. A legislative framework that enables conflicts of interest to flourish among the political elite hinders the consolidation of political parties, as a lobby is not a truly representative body.

Participation in Non-Governmental Organizations

As outlined in ***Latvia Human Development Report 1995,*** the development of independent social organizations began in the second half of the 1980s. In part, this process reflected the rejection of total state control by existing social organizations which throughout Soviet rule had existed as CPSU satellite-organizations financed by the state budget. The emergence of independent organizations also reflected a partial transfer of state functions to society.

In the late 1980s, participation flourished in various social organizations and movements, especially those concerned with environmental protection and reclaiming the heritage of the past (see Table 5.2). In 1991 54 percent of all survey respondents identified themselves as members of at least one social organization. Three years later, in 1994, only 40 percent did so, and in February 1996, only 20 percent, the majority of whom are members of trade unions.

Survey data indicate declining participation in trade unions as well. Evidently, with the development of new economic relations in both the manufacturing and service sectors, the protection of employee interests required new organizational foundations. Participation in trade unions under post-socialist conditions is a particularly complicated matter, for the linkages between the Soviet trade union (as a school for communism) and the totalitarian state were particularly tight. While formally representing the interests of working people, trade unions actually functioned as a mechanism of state control over workers (as did the various creative unions and professional associations of the Soviet period) and a vehicle for the distribution of various privileges. These trade unions were financed by state enterprises and agencies, and membership in them was largely formal.

After the restoration of Latvia's independence, the trade union movement divided into those that continued to operate as individual trade unions, and those that joined together to form the Latvian Association of Free Trade Unions. The latter comprise approximately 40 percent of all trade unions and are based primarily in industry. These trade unions attempted to develop policy independently from the state and to carry out, at least partially, the functions of independent trade unions. They attempted to enter politics, putting forth candidates in both the Fifth and Sixth Saeima elections, but without success. On the other hand, the protest activities of individual trade unions (the teachers' strike and the strike of December 1995) reminded the public of the role of trade unions in defending the interests of social groups.

The democratization of society is clearly reflected in the development of civil society and its most significant element, non-governmental organizations — associations, funds, unions, societies and so on. These organizations seek to defend human rights, promote economic initiative and development, prevent environmental degradation and provide social assistance to some of Latvia's most vulnerable groups, such as children.

Theoretically this non-profit sector is organizationally independent from the government. However, in many post-socialist countries the development of such organizations is impeded by the lack of a sufficiently strong stratum of medium and small enterprises, economically independent

from the state, which is the economic basis of any civil society. While restructuring in the other two sectors — government administration and the market — was initiated from the top down, the growth of the third sector is also dependent on developing the appropriate legislative framework, which can fundamentally influence the development of non-governmental organizations.

In order to promote the consolidation of democracy and successful human development, it is absolutely essential to create favourable conditions for non-governmental organizations, for they play a fundamental role in the reform process, filling gaps in the state budget with their activities and resources and promoting both vertical linkages between the individual and the state and horizontal linkages within society. Here, the government faces a difficult problem. It must stimulate the growth of an autonomous sector that will take over some state functions and act as a watchdog. However, this imperative conflicts with the essence of the post-totalitarian state, which tends to jealously guard the prerogatives it enjoyed under socialism.

The past year witnessed some initiatives on the part of state institutions in the realm of stimulating activity in society. In January 1995 the Cabinet endorsed a Public Administration Reform programme aimed at emboldening society. The programme stressed the need to involve as many social organizations as possible in public administration and officially affirmed the public's right to obtain information from government institutions.

Government efforts to stimulate active participation by social organizations in decision-making processes have brought some positive results. For example, a tripartite council of trade unions, employers' organizations and the state (Ministry of Welfare, Labour and Health) is active in coordinating decisions on wages, benefits, and other matters. The Physicians' Union has taken over all functions related to the accreditation and licensing of physicians. The Union of Local Governments has strengthened its dialogue with the central government. Ministries invite organizations and individuals to present their views on particular issues in permanent task forces and fora. Government, Parliament and NGO representatives cooperated in preparing for the Fourth World Conference on Women held in Beijing, China in the autumn of 1995. The Government has initiated the task of ensuring public access to information through the programme "Link with the Citizen," which has produced ten brochures on rights and responsibilities and or-

Table 5.8

Contacts with Government Officials and the Mass Media, 1988-1995

(Percentage of respondents, at least once during the given time period)

	August 1988-1991	August 1991-1994	1995
USSR People's deputies	6	-	-
Republic of Latvia Supreme Council deputies	14	-	-
Saeima deputies and staff	-	3.1	4.9
Cabinet of Ministers members and staff	5	1.7	1.8
Local government council members	5	7.0	9.0
Local government staff	24	3.6	15.9
Radio, TV, newspaper correspondents	9	1.8	4.3
No contacts	52	78.4	71.8

Table 5.9

Do You Trust the Following Institutions? (Percentage of total respondents)

	March 1995	May 1995
Radio Latvia	82	81
LTV	82	79
The church	71	70
Latvia's press	65	64
Bank of Latvia	49	38
The courts	39	50
Cabinet of Ministers	34	37
Saeima	30	35
The police	26	32

ganized several far-reaching information campaigns on issues of tax and budget policy and electoral rights.

In recent years the growth of NGOs has intensified in Latvia, although it is virtually impossible to obtain precise information about the number, size and structure of such organizations. According to expert estimates, there are approximately 1200 to 1500 such organizations in Latvia, with a total membership of several tens of thousands. However, at this time it is unclear to what degree these organizations exist only on paper and to what degree they are actually capable of influencing government policy. The Ministry of Welfare and the United Nations Development Programme have undertaken a comprehensive survey of the NGO sector and will soon publish an inventory giving details of some 250 organizations.

Although results are not fully representative, survey data suggest that most NGOs focus on issues related to children, poor families, pensioners and the disabled, and that their most significant functions are education, information, consultation and the distribution of humanitarian aid. Two main types of activity can be distinguished: (1) care and assistance; and (2) defence of social interests and monitoring of government. Financing sources are varied: membership fees (mentioned in 60 percent of cases), individual donations (33 percent), donations from enterprises and firms in Latvia (39 percent), foreign donations (30 percent), local government allocations (22 percent), national budget allocations (9 percent) and income from commercial activity (12 percent). Curiously, representatives of national and local government agencies are involved in the leadership of around a third of the organizations surveyed. At the moment, it remains an open question whether the involvement of government representatives in the leadership of these organizations will bring them under government control or whether such involvement will enable the relevant NGOs to present their aims more effectively to state institutions.

Of the 20 percent of respondents to a survey carried out in February 1996 who identified themselves as belonging to a social organization, more than half are trade union members (58.8 percent). Employees of state enterprises or agencies are the most active participants in social organizations, and they most often participate in trade unions (73 percent). It is characteristic that an equal percentage of women and men (20 percent) are involved in social organizations, but men are more often involved in trade unions than women (65 percent and 51 percent, respectively), while women are more active in other organizations (professional associations, special interest clubs).

A similar pattern emerges if we compare participation in organizations by Latvians and other ethnic groups. Latvians overall are more active than other ethnic groups (26 percent and 12 percent, respectively), but while Latvians are more involved in trade unions than are other ethnic groups (72 percent and 48 percent), the latter are noticeably more involved in other organizations (particularly special interest clubs). Citizens are more active than non-citizens; residents of Latvia's large cities (except Riga) are more active than those of small towns and rural areas. People with higher and incomplete higher education are more active than others.

Table 5.10

Protest, 1988-1995

(Percentage, at least once during the given time period)

	1988- 1991	1991- 1994	1995
Signed petition	40	11.9	2.5
Organized petition drive	-	2.8	-
Participated in demonstrations	57	3.1	5
Participated in pickets	5	2.6	1.4
Participated in strike	8	1	3
Committed violent acts for political reasons	0.5	0.5	0
Never participated in protest activities	20	7.5	88

Obstacles to Participation

The socioeconomic, cultural and political legacy of totalitarianism constitute the primary impediments to increased participation (see also Box 5.3). All post-socialist societies have weakly differentiated social structures. Total state control over property, employment and mobility, the weak link between labour quality and material compensation, and the lack of competition in the early phases of the transition hinder the formation of social interests and identities. Conflict between and within interest groups is at the centre of civil society and participation. Social organizations which participate in the creation and resolution of these conflicts can base their activities in ideology, professional identity, form of employment, or membership in a social stratum. In Latvia these properties are still only nascent, and, therefore, achieving economic, political and social participation on a mass scale is problematic.

The development of participation is also hindered by the fact that the banning of independent social organizations under the totalitarian regime destroyed the institutional stratum that links the state and the individual. In Latvia during the transitional period, this vacuum has sometimes been filled by pseudo social organizations. For example, various organizations which functioned under the totalitarian regime were easily transformed — professional unions and associations, as well as various "bastard" institutions (the mafia, the protection racket). These organizations are not rooted in society, and their activities do not link the organizations' specific goals with the interests of society as a whole, but only with the interests of very particular groups.

In comparison with the totalitarian era, when people were not given the opportunity to think "unsanctioned" thoughts, to discuss and take part in social and political activities, during the transition period the number and complexity of social and political problems have increased. The majority of people, however, were unprepared for the new opportunities. As it turned out, the constitutional right to participate in social life and politics does not ensure the ability to do so. Resources for participation are required: knowledge, skills, information and the ability to orient oneself in a mass of information, and the necessary psychological disposition — trust or lack of trust in democratic institutions and the regime, as well as belief in the significance and effectiveness of participation. To participate actively in social and political pursuits, leisure time is necessary. But leisure time is scarce during a difficult economic transition, when, for many, eking out a survival and supplementing a meagre income are paramount. As in mature liberal democracies, the classic differentiating role of resources is evident in Latvia: higher education, as well as higher income and social status correlate with higher levels of participation.

The totalitarian legacy manifests itself in the dominant political trends as well. The former *nomenklatura*-type cadres policy, political corruption and repression, the unsuccessful experiment in centralized economic planning, botched reforms, unfulfilled promises, the degradation of the environment all reinforced the division of the public and private spheres and discredited politics as such, including the political elite and the political party as political institutions. The inexperience of the new political elite, the failure of economic reforms to satisfy public expectations and the slow implementation of many reforms during the transition period have facilitated alienation from politics (see Table 5.11).

The contradictory post-totalitarian legal system and the lack of commonly accepted norms in the new circumstances hinder participation as well. One function of political participation is to influence the state to recognize the interests of the members of civil society (i.e. of the population). However, in the transition period, government employees often exploit their office for personal gain, demanding surplus payment for their services. Members of the public often pay to solve problems or to receive the services ensured by law. As a result, instead of organizing in order to control and put pressure on state institutions, the public pays them off, thereby rendering political participation in its classical sense meaningless. All in all, this practice fosters corruption and facilitates and reinforces a situation in which private, selfish interests take over or buy out state institutions.

Over a quarter of the population is directly dependent on the state: state sector employees, the unemployed, pensioners, recipients of government benefits. In the category of partially "dependent" one must also include farmers who benefit from state subsidies. Under these circumstances, a seller-buyer relationship is formed between the state (bureaucracy) and a large segment of the population, leaving no room for equal state-civil society relations. The emergence of equal state-civil society relations is also hindered by another inheritance of the previous regime, the large number of non-citizens whose options for participation are limited.

Elected representatives and the bureaucracy do not have a strong incentive to promote the emergence of a strong middle class, the mainstay of democracy. A powerful middle class actively

Box 5.3

A Checklist of Effective Participation (From the global Human Development Report 1993)

Do people have:
- Equitable access to health and other aspects of physical well-being?
- Equitable access to knowledge, skills, technology and information?
- Equal human rights?

If there are obstacles, do they lie in:
- The legal system?
- Administrative rules and procedures?
- Social norms and values?
- The distribution of income and assets?

What should be the priority concern for a strategy to promote people's participation?
- Increasing public expenditures on human development priorities?
- Dismantling market barriers?
- Improving democratic governance?
- Strengthening the elements of a civil society, such as people's organizations, NGOs and a free press?

Table 5.11

How Interested Are You in Politics? (Percentage of respondents)

	July 1993	October 1994
Very interested	10	6
Fairly interested	46	38
Not very interested	39	41
Not at all interested	5	15

participating in democratic politics could wrest control of the distribution of material resources from elected representatives and the bureaucracy. But the pace of privatization is slow, and the stratum of entrepreneurs with a stake in ending the state monopoly is small and divided. Professionals (doctors, teachers, journalists and so on), who form the core of the middle class in stable democracies, are by and large employed in the state sector and dependent on it. Moreover, low wages force these professionals to seek supplementary work, leaving them no time for systematic, political defence of their interests.

Recommendations and Policy Options

The most important preconditions for the growth of participation and the strengthening of civil society already exist in Latvia: the population's level of education is relatively high (see Chapter 4 on **Education Reform**), people gained outstanding experience in participation during the period of the awakening, the political party system is gradually stabilizing, and a range of non-governmental organizations and media institutions are in operation. The process of economic reform is continuing, albeit not as fast as originally envisaged, and a middle class, the backbone of civil society, is beginning to emerge.

On the other hand, action must be taken to avert the negative socialization process that takes place when part of the population does not organize to defend its interests, does not fight for its rights, but pays bribes and fosters corruption and passivity. A range of measures can be taken to overcome distrust of public life and promote constructive, informed participation — participation which will strengthen democracy and give a new stimulus to human development.

Although the Ministry of State Reform was liquidated in 1995, it would appear to be desirable to consider various reforms concerning the term of office of the Saeima, the structure of the electoral system and the activities of government and parties. Discussions are now underway concerning extending the Saeima's term from three to four years. This proposal should be supported, as the current term is too short for deputies to be able to familiarize themselves with legislative work and operate effectively and for reform oriented government to be able to take some of the difficult decisions required during the transition. Politicians who must continuously campaign have little time left for public service and for rebuilding tattered public trust in politics. Other possible electoral reforms should be considered as well, such as introduction of a mixed voting system, which would increase the accountability of deputies to their constituents.

As can be seen from the results of a large-scale survey conducted at the end of 1994 by the Central Statistical Bureau of Latvia and the Norwegian Institute of Applied Social Research (Fafo), the majority of the population believes that government officials conceal information to which society should have access (88 percent) and that officials work ineffectively (93 percent). In order to overcome popular alienation from politics and promote participation, steps must be taken to strengthen openness and faith in government agencies. A law on access to information that promotes such access, rather than limits it, needs to be adopted. Concrete administrative penalties must be enacted against civil servants (at both the national and municipal levels) who do not provide information. Legislation should *require* civil servants to disseminate information to the population.

In this context, the programme "Link with

the Citizen," should be continued if not expanded. In addition to its contribution to civic education throughout society, it is clear that such awareness-raising mechanisms are needed to help facilitate a greater understanding of, and more meaningful participation of society in the various reforms under way.

To restore faith in government, a strong anti-corruption law must be passed, prescribing harsh sanctions for offenders. Consideration must also be given to strengthening democracy at the local government level (for example, reporting on the expenditure of budget funds, local referenda). Politicians and the media should debate legislative measures to reform party financing so as to limit the influence of lobbyists.

Legislation and administrative practice must be closely analyzed in regard to the founding, financing and operation of non-governmental organizations, so as to understand the obstacles to growth of such organizations. For instance, the procedure for registration of NGOs could be simplified. The newly-founded National Human Rights Office should take the initiative in creating various expert councils and organizing fora (for example, on children's rights, on women's rights, on human rights education), in which non-governmental organizations could cooperate with government representatives.

While, there are a number of international support programmes for non-governmental organizations, a lack of coordination often leads to duplication and waste of resources. Monthly meetings of those involved in supporting NGOs, along the lines of the regular meetings of G-24 representatives in the Ministry of Finance, could contribute to the resolution of this problem. These programmes should provide particular assistance in establishing and developing non-governmental organizations outside Riga.

As stated in ***Latvia Human Development Report 1995***, civil society cannot survive without the free exchange of information, which can be guaranteed only by stable media institutions. The most important tasks in the media sphere are to ensure diversity of opinion and clear presentation of those opinions. Although the press is already exempted from the value-added tax, it would be worthwhile to consider other forms of tax relief as well (for example, a more favourable profit tax), if only temporarily, until economic conditions have improved.

Further discussion of what constitutes ethical behaviour on the part of journalists would be highly salutary. Assistance programmes should focus on raising the substantive capacity of the media to report on reform issues and make them understandable to the entire population. In addition, assistance programmes should focus not only on journalists, but also on media business managers, for the media will be able to develop fully only under good management.

In order for people to participate actively and constructively in the process of human development, they must have the relevant democratic knowledge and skills. The state, non-governmental organizations and the media play an essential role in helping people orient themselves in the new conditions of democracy. There is much work to be done in this regard: the aforementioned Latvian-Norwegian survey (Fafo) indicates that 71 percent of Latvian residents agree with the statement that "politics is so complicated that someone like me has a hard time understanding it all." Apparently, much time and effort must be invested in an effective, all-encompassing civic education programme, which could be carried out by the National Human Rights Office in cooperation with the Ministry of Education and Science, non-governmental organizations, the adult education system and the media. Some efforts in this direction are already under way (see Chapter 4 on **Education Reform**), but it is important to recognize the essential role of democratic education in promoting participation and strengthening civil society.

Chapter 6

Conclusion

This ***Human Development Report*** is intended to continue and deepen the development debate begun by last year's ***Report***. A more far-reaching dialogue emerged this year during the preparation process itself, as more contributors were involved and a series of seminars took place on individual chapters before publication of the final document. In the end, however, it is action, not words, that will determine whether and to what extent the well-being of people in Latvia improves. To foster action for human development, this Report proposes a number of policy recommendations (see below). Even if the recommendations are not implemented, it is to be hoped that they will spur dialogue and focus the development debate on policy.

While the scope of the issues explored by this and last year's reports is broad, several topics demand further consideration in the future. Last year's Report devoted a chapter to "Deteriorating Health" and Chapter 2 above discussed trends in mortality and life expectancy. However, the seriousness of the demographic crisis and the imperative of improving public health, both as a major determinant of human development and as a pressing national priority, demand additional analysis.

A related topic requiring more thorough investigation is the relation of people to the natural environment, a theme touched upon in both Human Development Reports and in Latvia's report to the UN Conference on Human Settlements. The impact of environmental degradation on public health in general and on the poorest segments of society in particular are both largely unexplored themes in Latvia.

Any examination of the environment will entail looking at agriculture — a sector of the economy that receives little attention from many development economists in the region, who focus first and foremost on manufacturing, industrial production, and the growth of the service sector. While any examination of agriculture entails looking beyond Riga, another, related topic begging for more attention is regional development, and specifically the need to formulate a regional development strategy that can address regional inequalities, such as those evident in Latgale.

UNDP and this year's ***Human Development Report*** research team invite the government, media, NGOs and the broader public to read the Report, discuss it and criticize it. One purpose of the Report is to foster alternative proposals to promote human development. If, like last year's Report, this Report should be used in institutions of higher education as a teaching tool, it would be useful to hear which parts of the document were most useful and which were most debatable. If there is further demand, consideration will be given to issuing an abridged, simplified version for use in schools. For those with access to the Internet, this Report can be found at the UNDP homepage (URL: http://www.riga.lv/~undp). We eagerly await your comments about both the analysis in each chapter and the policy recommendations, which are reiterated below for your convenience.

Major Policy Recommendations

Chapter 2, Human Development During the Transition — The Latvian Context:

- Undertake a public awareness campaign aimed at adults stressing health as a value and highlighting the dangers of smoking and excessive alcohol consumption; before such a campaign, assess how best to reach males, whose health has been especially threatened.
- Institute stricter restrictions on smoking in public places.
- Devote a greater share of resources in state funded health care to preventive and primary health care.
- Build incentives into the health insurance system for regular medical check-ups.
- Increase the excise tax on alcohol and tobacco products.
- Promote public debate on the divide between "official" and "unofficial" reality and ways of overcoming it (e.g. "official" tax law and "unofficial" tax evasion).
- Promote the "institutionalization of public virtues" by awarding businesses with exemplary achievements in contributing to Latvia's development.
- Simplify the tax system and bring it into line with the capacity of the state to collect.
- Implement promises of tax relief to backward areas and determine why earlier programmes to promote development in Latgale have not yielded results.
- Change tax policy so that businesses have incentives to invest in employee training.
- Amend legislation to encourage the establishment of credit unions.
- Introduce the World Bank budget classification system.
- Conduct a study on why Riga, despite its relatively developed social infrastructure, has such high mortality from certain causes.
- In the context of the 800th anniversary of Riga, promote public debate on the consequences of having such a large population concentration in the capital.

Chapter 3, Economic Policies and Changes in Living Standards:

- Deficit spending should be permitted only for human development priorities and a limited number of long-term projects within the state investment programme; the former must only be done in combination with a rationalization of public expenditures, the latter must earn or create the basis for earning a profit.
- Gradually change the structure of financing the budget deficit through loans on the international financial market.
- Make reducing the budget deficit through improving revenue collection a top public priority.
- Enact stricter controls on cash transactions, requiring greater reliance on the banking system to encourage precise records of income and tax payments.
- Streamline tax administration and impose stricter penalties against tax evasion.
- Amend legislation to permit foreign companies to purchase not only buildings, but also the land beneath them.
- Increase the number of bilateral treaties on the promotion and protection of bilateral investments.
- Lift visa regulations allowing foreigners to remain in Latvia for only three months in a year.

- Amend legislation to allow enterprises to sell debts on the financial market, capitalize them, and write them off under specific conditions.
- Amend laws governing insolvency and bankruptcy to provide for mandatory insolvency if an enterprise fails to fulfill its obligations.
- Impose criminal liability on management if an enterprise fails to announce insolvency when it should.
- Formulate regional development and employment programmes with provisions for attracting investment and cheap loans.
- Amend the state investment programme to include a special sub-programme "Investment in Latgale" focusing on infrastructure development in the region.
- Increase the role of voluntary insurance programmes and create private and municipal pension funds, but provide strict regulatory oversight.
- Grant family support only to those with lower than average incomes.
- Reexamine the method of calculating the crisis subsistence minimum.
- Consider differentiating social payments to account for differences in costs of living between urban and rural areas.
- Develop a national poverty reduction strategy.

Chapter 4, Education Reform:

- Develop national standards and guidelines not only for basic subjects taught in basic and upper secondary schools, but also for new subjects being introduced to the curriculum (civics, environmental and health education, etc.).
- Tap teachers' associations for information on education and training needs.
- Promote the preparation of specialists in education administration.
- Establish teams for the preparation of new teaching resources under the framework of a national programme.
- Elicit the participation and input of teachers, directors and parents from minority schools in implementing the National Programme for Latvian Language Training.
- Carry out a public relations campaign to explain to all parties, especially parents, the changes underway.
- Allot a greater share of education expenditures to investment.
- Weigh the possibility of taking an international credit to facilitate education reform.
- Consider introducing tuition fees and charges for textbooks in institutions of higher education.
- Introduce a system of student loans for higher education.
- Link education finance reform to municipal finance reform by allowing municipalities to generate supplementary tax revenue for education.
- Consolidate under-utilized schools and increase student-teacher ratios.
- Eliminate duplication of educational facilities offered by different sectoral ministries.

Chapter 5, Participation and Strengthening Civil Society:

- Extend the Saeima's term of office from three to four years.
- Introduce a mixed voting system.
- Continue and expand the programme "Link With the Citizen."
- Adopt legislation promoting access to information, enact administrative penalties against civil servants who do not provide information, and require civil servants to disseminate information

to the population.

- Pass an anti-corruption law that prescribes harsh penalties for offenders.
- Strengthen democracy at the local government level by reporting on expenditures, organizing local referenda.
- Promote public debate on party finance reform to limit the influence of lobbyists.
- Review the legal and fiscal climate for NGOs, simplify the procedure for registration of NGOs.
- Expand cooperation between the National Human Rights Office and NGOs in convening fora on human rights and human rights education.
- Organize regular meetings of those involved in supporting NGOs to avoid duplication and waste.
- Target special assistance to establishing and developing NGOs outside of Riga.
- Consider additional tax relief measures for the mass media.
- Promote public discussion of what constitutes ethical behaviour on the part of journalists.
- Focus assistance and training programmes to the media not only on journalists, but also on media business managers.
- Promote cooperation between the National Human Rights Office, the Ministry of Education and Science, NGOs, the adult education system and the media to expand existing civic education programmes.

Appendix Tables

The appendix tables were prepared to correspond with indicators specified by the United Nations Development Programme (UNDP). In general, information available to the Central Statistical Bureau was used. When necessary, supplementary data were obtained from other ministries (the Ministry of Finance, the Ministry of Welfare), institutions (the Academy of Sciences), and international organizations (the World Bank, the International Monetary Fund).

Unfortunately, the scope of statistical data on some issues related to human development is limited and all of the data suggested for inclusion by UNDP were not available. For many indicators, the only available data were from the last census in 1989. In some cases, calculations do not fully correspond to internationally used methodologies and definitions. Currently, the Central Statistical Bureau of Latvia is in the process of introducing international standards and methodologies.

1. Human Development Index: Latvia

	Life expectancy at birth (years)	Adult literacy rate (%)	Combined first-, second- and third-level gross enrollment ratio	Real GDP per capita (PPP$)	Adjusted GDP per capita	Life expectancy index	Education index	GDP index	Human development index	Real GDP per capita (PPP$) rank minus HDI rank
UNDP est.										
1992[1]	69.1	99.0	68.0	6060	5181	0.74	0.89	0.95	0.857	6
1994	66.4	99.0	69.5	3214[2]	-	0.69	0.89	-	0.721	-

[1] From HDR 1995

[2] Short-term economic indicators OECD 1/1996

2. Profile of Human Development

	Life expectancy at birth	Maternal mortality rate (per 100,000 live births)	Population per doctor	Scientists and technicians (per 1000 people)	Enrollment ratio for all levels (% age 7-23)	Tertiary full time equivalent gross enrollment ratio		Daily newspapers (copies per 100 people)	Televisions (per 100 people)	Real GDP per capita	GDP per capita (US$) (PPP$)[1]
						Total (%)	Female (%)				
1989	70.4	57	199	7	68.3	18.0	57.0	-	42.1	-	-
1993	67.2	30	274	2	62.1	15.3	56.3	35.6	42.2	3063	857
1994	66.4	24	296	2	69.5	21.5	56.0	23.1	-	3214	1347
1995	66.0	22	-	-	71.6	25.4	57.4	-	-	-	-

[1] Short-term economic indicators OECD 1/1996

3. Profile of Human Distress

	Unemployment rate (%)	Adults with less than upper secondary education (as % of age 15+)[1]	Ratio of income of highest 20% of households to lowest 20%	Female wages as % of male wages	Average annual rate of inflation (%)	Deaths due to road accidents (per 100000)	Intentional homicides by men (per 100,000 males)	Reported rapes (per 100,000 women)	Sulphur and nitrogen emissions (kg of NO_2 and SO_2 per capita)
1989	-	39.6	-	-	262.4	30	7.3	11.3	26.6
1993	5.8	39.6	4.0	77.0	109.2	26	12.7	9.3	20.1
1994	6.5	39.6	4.5	77.0	35.9	28	9.7	9.4	20.0
1995	6.6	39.6	-	78.3	25.0	24	13.7	11.6	-

[1] Census 1989

4.Trends in Human Development

	Life expectancy at birth	Tertiary full-time equivalent gross enrollment ratio (% age 7-23)	Real GDP per capita (PPP$)	GDP per capita (US$)	State education expenditure (as % of GDP)	State health expenditure (as % of GDP)
1989	70.4	18.0	-	-	-	-
1993	67.2	15.3	3063	857	4.1	4.1
1994	66.4	21.5	3214	1437	4.3	4.2
1995	66.0	25.4	-	-	6.3	-

5. Female-Male Gaps
Females as Percentage of Males

	Life expectancy at birth	Population	Secondary enrollment	Upper-secondary graduates	University full-time equivalent enrollment	Natural and applied sciences enrollment	Labour force	Unemployment	Wages
1989	115.2	115.3	96.9	97.0	124.8	-	-	-	-
1993	119.8	115.2	100.2	100.4	106.7	-	96.3	113.5	77.0
1994	120.1	115.5	107.2	118.9	133.0	-	94.2	107.9	77.0
1995	121.7	115.8	108.0	120.1	140.0	-	94.2	109.7	73.3

6. Status of Women

	Life expectancy at birth	Average age of first marriage	Maternal mortality rate (per 100 000 live births)	Secondary net enrollment ratio (%)	Secondary net enrollment ratio (%)	Tertiary fulltime equivalent gross enrollment ratio (% of females aged 19-23)	Tertiary natural and applied science enrollment (as % of female tertiary)	Women in labour force (as % of labour force)	Administrators and managers (% female)	Parliament (% of seats occupied by women)
1989	75.2	23.0	56.5	-	-	-	-	54.9	-	34.81
1993	73.8	22.5	29.8	51.0	50.1	56.3	-	49.0	-	15.0
1994	72.9	23.4	24.0	51.0	54.0	56.0	-	48.5	-	-
1995	73.0	-	22.1	51.1	53.8	57.4	-	48.5	-	8.0

[1] 1980

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7. Demographic Profile

	Estimated population (millions)	Annual population growth rate	Total fertility rate	Contraceptive prevalence rate (%)	Dependency ratio (%)	Population aged 60 and over (%)	Life expectancy at age 60	
							Male	Female
1989	2.7	1.0	2.1	-	43.4	17.4	15.3	20.1
1993	2.6	- 1.9	1.5	-	43.1	18.8	14.5	20.1
1994	2.6	- 1.5	1.4	18.9	43.2	18.9	16.2	19.7
1995	2.5	- 1.4	1.3	18.9	-	19.1	-	-

8. Health Profile

	Deaths from circulatory system diseases (as % of all causes	Deaths from malignant cancers (as % of all causes)	Registered alcohol consumption (litres per adult)	Adults who smoke (%)[1]		Population per doctor	Health bills paid by public insurance	State expenditures on health (as % of total State expenditures)	State expenditures on health (as % of GDP)
				Male	Female				
1989	60.2	17.1	5.7	-	-	199	-	-	-
1993	56.2	14.0	6.4	-	-	274	-	9.7	4.1
1994	55.9	13.4	7.8	55	17	296	-	14.3	4.2
1995	-	-	8.3	-	-	-	-	-	-

[1] Source: Living Conditions Survey 1994

9. Education Profile

	Population coverage by all levels of education (% age 7-23)	Upper secondary full-time equivalent gross enrollment ratio	Upper-secondary full-time equivalent gross enrollment ratio	Tertiary full-time equivalent gross enrollment ratio	Tertiary natural and applied science enrollment	Expenditure on tertiary education (as % of all levels)	Public expenditure per tertiary student	State expenditure on education (as % of GDP)
1989	68.3	-	-	18.0	-	-	-	-
1993	62.1	-	-	15.3	-	14.1	-	4.1
1994	69.5	86.8	51.7	21.5	-	13.3	-	4.3
1995	71.6	88.7	48.3	25.4	-	-	-	6.3

10. Human Capital Formation

	Scientists and technicians (per 1000 people)	Expenditure on research and development (as % of GDP)	Upper secondary graduates (as % of population of normal graduate age 18 years)	Tertiary graduates (as % of population of normal graduate age 23 years)	Science graduates (as % of total graduates)
1989	6.7	-	-	-	-
1993	2.2	0.2	-	-	-
1994	1.6	0.3	75.2	16.9	-
1995	-	-	74.9	21.7	-

11. Employment

	Labour force (as % of total population)	Percentage of labour force in			Future labour force employment ratio	Earnings per employee annual growth rate (%)	Percentage of labour force unionized	Weekly hours of work	Expenditures on labour market programmes
		Agriculture	Industry	Services					
1989	52.7	16.0	40.0	44.0	-	-	-	-	-
1993	51.1	19.5	28.5	52.0	-	120	-	39.5	-
1994	51.0	19.3	26.1	54.6	-	52	-	39.5	-
1995	50.7	-	-	-	-	25	-	39.5	-

12. Unemployment

	Unemployed persons (thousands)	Unemployment rate		Unemployment benefits expenditure (as % of total government expenditures)	Incidence of long-term unemployment (more than 6 months)
		Total	Female		
1989	-	-	-	-	-
1993	76.7	5.8	-	2.0	32.9
1994	83.9	6.5	6.9	1.5	43.0
1995	83.2	6.6	7.2	-	45.0

13. Military Expenditures and Resources Use Imbalances

	Defence expenditures[1]			Military expenditures (as % of GDP)	Military expenditures (as % of combined education and health expenditures)
	US$ millions (1985 prices)	As % of GDP	Per capita (US$ 1985 prices)		
1992	40	0.5	15	-	-
1993	-	-	-	0.8	8.2
1994	-	-	-	0.8	9.1
1995	-	-	-	-	-

[1] Source: Human Development Report 1995

14. Natural Resources Balance Sheet

	Land area (thousands of km^2)	Population density (people per km^2)	Arable land and permanent cropland (as % of land area)	Forest and wooded land (as % of land area)	Drained land (as % of arable land area)	Internal renewable water resources per capita (1000 m^3 per year)	Annual fresh water withdrawals (per capita m^3)
1989	64.6	41.3	26.6	43.2	31.9	-	260.4[2]
1993	64.6	40.0	26.9	44.0	30.1	5.7[1]	196.8
1994	64.6	39.4	26.5	44.0	-	-	172.9
1995	64.6	38.9	20.7	44.6	-	-	-

[1] Source: Human Development Report 1995
[2] 1991

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15. National Income Accounts

	Total GDP (millions of lats)	Agricultural production (as % of GDP)	Industrial production (as % of GDP)	Services (as % of GDP)	Private consumption (as % of GDP)	Gross domestic investment (as % of GDP)	Tax revenue (as % of GDP)	Central government expenditures (as % of GDP)	Exports (as % of GDP)	Imports (as % of GDP)
1990	62.4	20	33	47	52.7	-	-	-	-	-
1993	1467.0	11	21	48	52.5	13.8	31.2	28.1	73.2	57.0
1994	1914.1	8	24	51	57.1	15.9	31.2	23.4	48.5	44.9
1995	2360.7	-	-	-	-	-	-	-	-	-

16. Trends in Economic Performance

	GDP annual growth rate[1]	GDP per capita annual growth rate[1]	Consumer price index (as % of previous year)	Exports as % of GDP (annual growth rate)	Overall budget deficit (as % of GDP)
1990	2.9	-	110.5	-	-
1993	- 14.9	- 13.2	209.2	- 6.7	0.1
1994	0.6	2.1	135.9	- 24.7	1.98
1995	- 2.0	- 0.35	125.0	-	-

[1] At average prices 1993

17. Weakening Social Fabric

	Prisoners (per 100,000 people)	Juveniles (as % of total convicted 14-17 year olds)	Reported rapes (per 100,000 people)	Drug crimes (per 100,000 people)	Divorces (as % of marriages contracted)	Births outside marriage (%)	Suicides by men (per 100,000)
1989	262.7	15.4	11.3	2.6	45.9	15.9	37.9
1993	208.7	10.8	9.3	8.4	70.4	23.0	71.6
1994	253.6	10.5	5.1	10.9	72.7	26.4	70.9
1995	-	10.9	6.3	10.8	72.7	28.9	70.7

18. Wealth, Poverty and Social Investment

	Real GDP per capita (PPP$)	Share of industrial GDP	Income share (highest 20% to lowest 20%)	Social security benefits expenditure (as % of GDP)	State education expenditure (as % of GDP)	State health expenditure (as % of GDP)
1989	-	33	-	-	-	-
1993	3063	21	4.0	9.2	4.1	4.1
1994	3214	24	4.5	11.6	4.3	4.2
1995	-	-	-	-	6.3	-

19. Communication Profile

	Radios (per 100 people)	Tele-visions (per 100 people)	Annual cinema attend-ances (per person)	Annual museum attend-ances (per person)	Daily news-papers (copies per 100 people)	Book titles published (per 100,000 people)	Letters posted (per capita)	Tele-phones per 100 house-hold	Motor vehicles (per 100 people)[1]
1989	46.5	42.1	9.0	1.6	-	72.3	42.4	62.9	9.5
1993	53.7	42.2	0.7	0.5	35.6	61.9	12.4	71.7	13.5
1994	-	-	0.6	0.5	23.1	65.4	8.3	75.0	9.8
1995	-	-	-	-	-	-	-	-	-

[1] Passenger automobiles

20. Urbanization

	Urban population (as % of total)	Urban population annual growth rate	Population in largest city (as % of urban)	Population in cities of more than 40 thsd. (as % of urban)	Population in cities of more than 40 thsd. (as % of total)
1989	69.2	1.1	52.1	75.2	51.7
1993	68.7	– 1.9	51.1	76.6	50.9
1994	69.1	– 1.2	48.1	76.0	50.7
1995	69.0	– 1.2	47.9	73.1	50.4

Note: Information on 1995 may still be corrected.

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